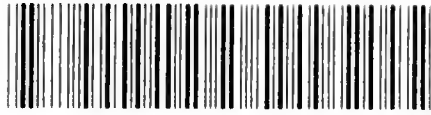


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PENNSYLVANIA STATE CHAMBER OF COMMERCE

Harrisburg, Pa.

STATE BUDGET SYSTEMS

A Budget Plan for Pennsylvania

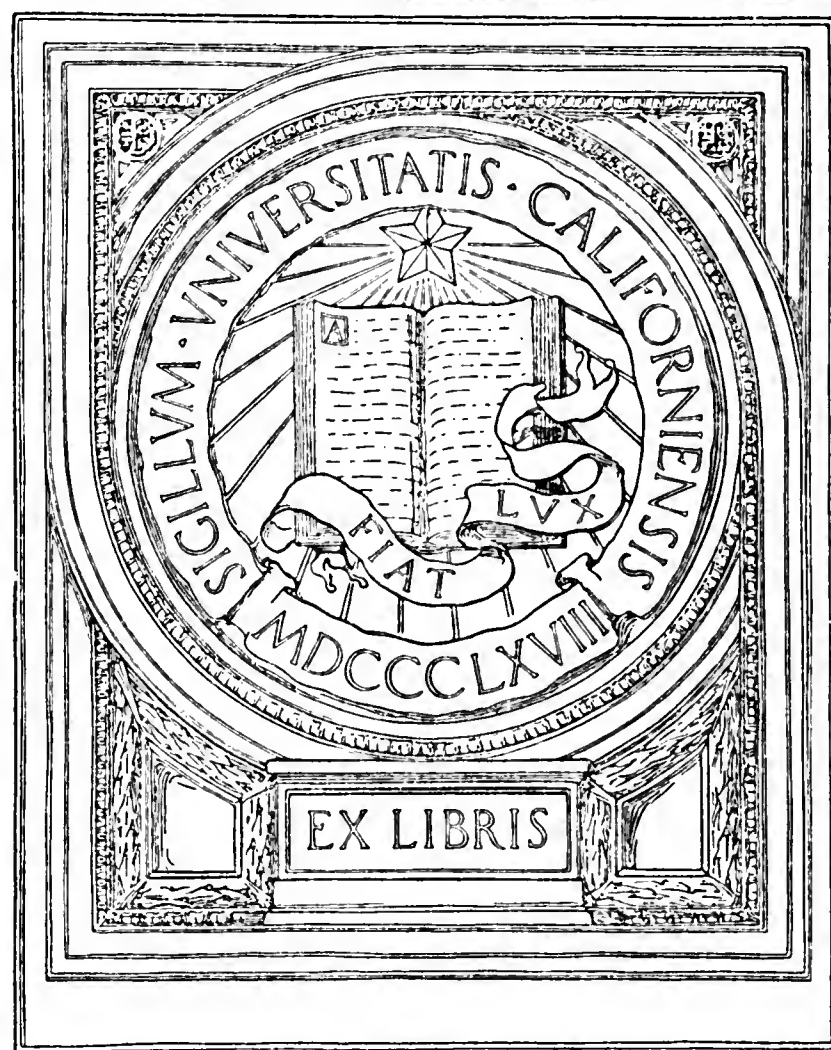
Pennsylvania's Appropriation Methods
and Budget Systems in the States

To Accompany
Referendum Number Six

1922

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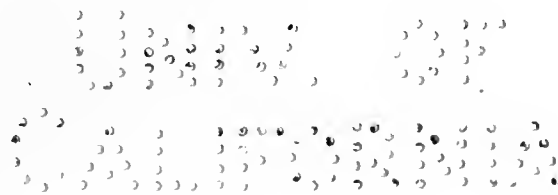
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FOREWORD

*To Members of the Pennsylvania
State Chamber of Commerce:*

The two outstanding public questions in Pennsylvania today are the systematization of state finances and the reorganization of state administration. Representing organized business in Pennsylvania the State Chamber is vitally interested in making both of these constructive reforms effective as quickly as possible. Experience indicates that there can be no effective budget system without a unified and responsible state government.

Sentiment for a state budget system was largely inspired and popularized by the efforts of the State Chamber. Early in 1921, through its Research Bureau, the Chamber began a scientific appraisal of Pennsylvania's appropriation methods and the budget systems of other states. At its third annual meeting, October 10-11, 1921, the State Chamber adopted this resolution:

WHEREAS, It is now generally conceded that a budget system is indispensable to the systematic and intelligent handling of governmental as well as business finances; and

WHEREAS, The Federal Government and all of the states, except Pennsylvania and one other state, have followed approved business practice by installing a permanent budget procedure; therefore be it

RESOLVED, That the Pennsylvania State Chamber of Commerce strongly urge the installation of a budget system in our state government to expedite the creation of a balanced relationship between revenues and expenditures, and the adoption of a work program through correlated and proportional appropriations to state services and institutions.

This action received extensive publicity and gave rise to a wide-spread demand for a state budget system in Pennsylvania.

Owing to its effective campaign for systematic control of state finances, the State Chamber was officially recognized in the Governor's appointments to the Commission on Reorganization of State Government. The Chamber's representative is

participating in the Commission's deliberations to devise plans for the greater application of business methods to state administration. And it was the State Chamber's privilege to receive and publish the six preliminary recommendations of the Reorganization Commission, first released by Chairman Woodward at the Chamber's conference of state affairs committees, representing the local chambers, on April 6, 1922.

Everybody is for a state budget, but there is no such unanimity on the type of budgetary control desired. To this problem the Chamber's committee on a state budget has given long and earnest study, aided by the investigations of the Chamber's Research Director. On the basis of this study the committee now reports an executive budget plan for Pennsylvania, adapted to local conditions and embodying the practices found most successful under existing budget systems. This proposal to establish an executive budget by legislation, pending the adoption of a constitutional amendment, coincides with a preliminary recommendation of the Reorganization Commission.

The budget committee's report and the supporting research study are now published to give the Chamber's membership reliable data upon Pennsylvania's appropriation methods and the budget systems of forty-six states. With this information at hand the Chamber's Board of Directors have thought it opportune to authorize Referendum No. 6 based upon the recommendations of the committee on a state budget.

ALBA B. JOHNSON,
President.

A BUDGET PLAN FOR PENNSYLVANIA

Prepared by the
COMMITTEE ON STATE BUDGET
Pennsylvania State Chamber of Commerce

Submitted to
The Chamber's Board of Directors
June 8, 1922

MEMBERS OF COMMITTEE ON A STATE BUDGET
OF THE
PENNSYLVANIA STATE CHAMBER OF COMMERCE

Hamilton Stewart, Vice-President, Harbison-Walker Refractories Company, Pittsburgh, Chairman.

J. E. B. Cunningham, Attorney, Harrisburg.

Franklin S. Edmonds, Attorney and Member of House, Legislature of 1921, Philadelphia.

Spencer C. Gilbert, Member of Henry Gilbert & Son, Harrisburg.

E. E. Knobloch, Treasurer, Union Iron Works, Erie.

George D. Ogden, Traffic Manager, Central Region, Pennsylvania System, Pittsburgh.

John Uhl, Vice-President, Penn Tobacco Company, Wilkes-Barre.

REPORT OF THE STATE CHAMBER'S COMMITTEE ON A STATE BUDGET TO THE CHAMBER'S BOARD OF DIRECTORS

The business men of Pennsylvania, contributing three-fourths of the state government's tax receipts, view with alarm

(1) the steady increase in annual appropriations from \$13,000,000 twenty years ago, to \$31,000,000 ten years ago, and \$58,000,000 in the current biennium;

(2) the growing habit of the state to live beyond its income, as illustrated by the chronic deficiency appropriations of the past twenty years and the estimated \$30,000,000 excess of appropriation liabilities over income in the current biennium; and

(3) the lack of unified financial planning and control responsible for several outstanding defects in the state's appropriation methods.

Defects of Pennsylvania's Appropriation Methods

These major shortcomings will be noted briefly here, for they are fully set forth in Chapter I of the accompanying research report.

(1) Little is done to focus the attention of the legislator and public upon the state's financial and work program as a whole. Neither constitution nor statute affectively centralizes responsibility in any official or board for a study of state needs and submission to the legislature of a complete expenditure and revenue program. Besides the general appropriation bill formulated by the house appropriations committee, there were over 600 separate appropriation measures introduced by individual legislators in 1921, 450 of which were passed and sent to the governor.

(2) Financial information available to the legislator is very inadequate. He lacks summary and detailed data compar-

ing the general and special expenditures proposed with the costs for the current and two preceding fiscal years, classified by organization units, character, functions and objects. He has no accurate data facilitating a comparison of specific state service on the basis of utility, efficiency and operating cost. No official estimate or analysis of available or proposed state revenues accompanies the general appropriation bill. No balanced statement of general and special funds is placed in the legislator's hands.

(3) Owing to the piece-meal presentation of appropriation requests and the delay in evolving a coordinate revenue program, members of the appropriations committees themselves are unable to get a birds-eye view of the state's finances. Few members of these committees, except the chairmen and their clerks, have a thorough grasp of the state's finances and are able to balance appropriation requests against each other and the probable income.

(4) In the last congested weeks of the session a mass of uncorrelated appropriation bills is reported out to the houses for action.

As a rule the legislator looks out for the individual bills he has sponsored and takes the others on faith—accepts the committee recommendations. This situation inspires log-rolling and trading of votes among members to get funds for their local institutions or political friends—a process not conducive to economy or aid to the most worthy. The legislator loses sight of available state revenues, the importance of his project in the state's work program as a whole, and the relative utility and efficiency of various services performed by public and semi-public agencies.

Generally bills are jammed through the houses by perfunctory roll calls, most of them in the few days before adjournment.

(5) The legislature adjourns without knowing by how much the total appropriations exceed probable income, and passes to the governor the task of acting on several hundred appropriation bills to balance expenditures and revenues during the biennium.

Hence the governor does his thinking about the state's finances after, instead of before, legislative adjournment.

(6) There is no effective check upon the evil of deficiency appropriations.

(7) Too much discretion is permitted in the expenditure of contingent funds.

(8) "Ear-marked" funds complicate the preparation of a balance sheet, remove certain state agencies from strict budgetary control, impoverish the general fund, and thereby force some state agencies and institutions to borrow money while special funds are tied up in state depositories at a low rate of interest.

Reasons for Recommending an Executive Budget System

Our own observations and the facts established by a thorough study of budget systems in other states, made for us by the Chamber's Research Director, prompt the recommendation of an executive budget system for Pennsylvania to introduce more business-like methods into state finances.

This type predominates in over half of the forty-six states now operating under a budgetary procedure of one kind or another, especially in those states comparable to Pennsylvania in size, population and wealth. Twenty-four states now have an executive budget system; thirteen, an administrative budget system; eight, a mixed administrative-legislative budget system; and one, a legislative budget system.

Expert opinion of accountants, research agencies and state efficiency commissions is in favor of the executive budget. Among its prominent advocates are the Institute for Government Research, Washington, D. C.; the Government Research Conference; the Institute for Public Service, New York City; the New York Bureau of Municipal Research; the New York State Reconstruction Commission; the New York State Association; the Massachusetts Commission on State Administration and Expenditures; the Philadelphia Bureau of Municipal Research; the Ohio Institute for Public Efficiency; the Detroit Bureau of Governmental Research; and Griffenhagen and Associates, Ltd., efficiency engineers and accountants, Chicago.

Through unified financial planning and control the executive budget has shown superior working advantages over the other types. A budget board weakens the governor's administrative powers, divides financial responsibility, and encourages padding of estimates by administrative officials on the board.

By making the governor responsible for the formulation and execution of the financial and work program, he becomes in fact as well as in theory the directing head of the state's business affairs. This is his legitimate function. He is the state's outstanding public officer and represents the whole Commonwealth, not a single department or legislative district. "As the chief executive he is in the best possible strategic position for securing the information essential to the preparation of the budget, and for enforcing the restrictions inherent in a thorough-going budget system. He is, moreover, the one man whom the citizens hold responsible for what the state does. He is the one man to whom the citizens look for initiative in state matters."

Integration and consolidation of Pennsylvania's state administration is sufficiently accomplished or under way to make possible the preparation and execution of a financial and work program by the governor. And lodging financial responsibility in the governor compels his attention to the problem of further reorganization and tightening of state administration.

Finally, in vetoing or reducing items of legislative appropriation, the governor of Pennsylvania is forced to improvise a work program for the state at the eleventh hour. If he ought to be invested with the power to veto and reduce items of appropriation after the legislature adjourns, when his word is final, should he not be fully empowered to prepare in advance the state's financial program for legislative review and action?

Budget Law to Supplement Proposed Constitutional Amendment

The budget amendment prepared by the recent Commission on Constitutional Amendment and Revision generally

meets the basic requirements for systematization of state finances. It provides:

“ARTICLE III

“*Budget and Appropriation Bills.*

“Section 12. The governor shall submit to the general assembly a budget on or before March 1 of each year in which it shall be in regular session. The budget shall contain a complete plan of proposed appropriations and complete estimates of the revenues and funds available for appropriation for the two ensuing fiscal years, including appropriations for charitable, educational and benevolent purposes. In submitting proposals for appropriations to charitable, educational or benevolent institutions not under the absolute control of the state government, the governor shall at the same time submit a plan of distribution among the classes of institutions to be benefited.

“When the governor presents the budget to the house of representatives, he shall submit a general appropriation bill containing the proposed appropriations for the fiscal years covered by the budget and may also submit any bill embodying recommendations as to sources of revenue.

“The presiding officer of the house of representatives shall immediately cause such bills to be introduced.

“The general assembly may increase, decrease, strike out or otherwise alter any item in the general appropriation bill, or may add new items thereto.

“Until the general appropriation law has been enacted neither house shall consider an appropriation bill other than the general appropriation bill unless the appropriation shall be solely for the immediate needs of the general assembly or unless the governor shall request the general assembly to act upon the bill in advance of the general appropriation bill.

“After the general appropriation law has been enacted no appropriation shall be made for any purpose, object or item included therein or in the general appropriation bill as submitted by the governor, unless the governor shall request the general assembly to pass a bill making such appropriation.

“The general assembly shall not finally adjourn for ten days after the general appropriation bill has been presented to the governor.”

But this budget system established by a constitutional amendment—adopted by the legislatures of 1923 and 1925, and ratified by popular vote in 1926—would not function until the

legislative session of 1927. Meanwhile, the state's finances sorely need the systematic control inherent in budgetary procedure. An executive budget law enacted in 1923 would meet this need, and also supply actual experience in budget-making as a basis for the administrative practice and supplementary legislation essential to full operation of the budget amendment.

Of course, a budget system established by constitutional amendment has greater permanence than one established by statute. A budget amendment binds subsequent legislatures and governors and is repealed with great difficulty; while a budget law is easily nullified by a succeeding legislature.

However, it is likely the current demand for ordered state finances would safeguard a budget law passed in 1923 against early repeal. There is abundant evidence that public sentiment can give real security to a statutory budget procedure. Of the forty-six states now operating under a budget system only three have incorporated it in their constitution. Yet no state has repealed its budget law except to pass one that is more effective.

A Budget Plan for Pennsylvania

Pending the adoption of a budget amendment to the constitution we recommend an executive budget law, as outlined below based upon local needs and the experience of forty-six states now operating under a permanent budgetary procedure.

(1) All departments, agencies and institutions receiving state funds shall transmit their appropriation requests, including proposed expenditures of ear-marked funds, to the governor by November 1 of each even-numbered year, on estimate blanks prepared and submitted by him.

These blanks shall be in such form and call for such information as the governor may require. On such blanks shall be spaces to show, among other things, (a) information as to the revenues and expenditures for the last two completed fiscal years, (b) the appropriations made by the previous general assembly, (c) the expenditures therefrom, (d) an estimate of the amount thereof required to complete the fiscal period, (e) any encumbrances upon such appropriations, (f) the amounts

unencumbered and which will be unexpended, (g) an estimate of the revenues and expenditures for the current fiscal year, (h) and an estimate of the revenues to be received and appropriations required for the next two fiscal years.

The governor with the aid of a budget director and staff will then compile and collate these requests and proposals, comparing them with past and current expenditures, present needs and available income.

Such budget director will be appointed by the governor with the advice and consent of the senate for a term of six years.

(2) From the auditor general the governor will receive annually, by December 15, a statement of receipts and expenditures during the fiscal year last ended, a statement of estimated revenue in the current and the next succeeding fiscal years, a balance sheet of the state's finances, a statement of unexpended balances from previous appropriations of the legislature, a general and special fund statement, and a statement of the state debt.

(3) The governor will review and revise all appropriation requests, holding joint public hearings in February of each odd-numbered year with the chairmen of the appropriations and ways and means committees of the house and senate, the state treasurer and the auditor general.

The governor may delegate the budget director to hold such hearings.

(4) The executive budget estimates transmitted to the legislature by March 1 of each odd-numbered year will show in summary and itemized form the amounts requested by all spending agencies, classified by organization units, capital, maintenance and operation purposes; the funds from which such requests are payable; the governor's recommendations thereon; his explanation of increases or decreases as compared with previous grants; the amounts spent by the several agencies in the last two completed fiscal years; and the estimated expenditures in the current fiscal year.

(5) Accompanying the governor's expenditure recommendations submitted to the legislature will be a statement of

revenues in the two last completed fiscal years, a statement of estimated income to balance expenditures proposed, a balance sheet of state finances, a fund statement and a debt statement.

(6) With the budget estimates the governor will also submit a general appropriation bill covering the needs of all state departments, interest on the public debt, and the public schools, together with individual bills for all special appropriations as required by the constitution. All appropriations, except for construction under way or where contracts have been let, shall lapse at the end of the fiscal period for which made.

All appropriation items shall be classified by organization units, capital, maintenance, and operation (personal services and commodities) purposes.

Appropriations to each executive department will carry for legislative approval a schedule of salaries and a plan of expending special funds credited to each department.

Appropriations to the Board of Commissioners of Public Grounds and Buildings and to the Department of Public Printing and Binding will carry for legislative approval schedules of funds available to each state agency for service, materials, supplies and printing furnished by these departments.

(7) Beginning not later than March 15, the appropriations committees of the house and senate will meet jointly for consideration of, and public hearings upon, the governor's financial program.

(8) In the exercise of the power granted by the constitution, the legislature may increase, decrease, add to or strike out any items in the executive budget bills, and may permit the introduction, consideration and passage of any additional appropriation bills.

(9) All budget information collected by the budget director shall be permanently preserved in the governor's office and placed at the disposal of each incoming executive.

Advantages of this Budget Plan

Let us consider briefly the significance of these budget provisions.

To pass upon the appropriation requests, intimate knowledge of each organization unit—its needs, efficiency, and oper-

ating methods—is required by the governor's staff. Hence a budget commissioner appointed by the governor is provided for continuous study of the state's finances. Such official will also be in a strategic position to observe opportunities for improvement in administrative practice and organization.

The auditor general is a check both upon the governor and legislature and his record of the state's assets and liabilities is authoritative and complete. Therefore, his full cooperation in budget-making is absolutely indispensable.

Public hearings by the executive on the estimates will have a great publicity value, focus the voter's attention upon the state's financial conditions and problems, and bring the governor, the state's fiscal officers and the legislature into closer working relations.

Preparation of the executive budget estimates will require the governor to do his thinking about state finances before the legislature adjourns; provide a unified financial and work program for consideration by the public and legislature; and furnish legislators and committees with the requisite financial information for intelligent discussion of the state's needs and revenues.

Executive budget bills will avoid the danger of having the budget recommendations regarded merely as an administrative report; compel legislative action upon a comprehensive financial plan; and thus increase legislative responsibility for state expenditures, by reducing the margin between appropriations passed and those finally approved by the governor.

So long as the present constitution is unamended, individual appropriation bills are necessary for items not properly included in the general appropriation bill. However, the unity of the appropriation program can be preserved by inserting all appropriate items in the general bill—a practice not now followed—and authorizing the governor to submit individual bills for all special grants.

Under this practice log-rolling will become increasingly difficult, since every additional and questionable expenditure will be carefully scrutinized for its effect upon the executive program of financing bona fide state needs.

Similarly, deficiency bills will decrease in number and amount. A well planned work program should tend to eliminate the necessity of supplementary grants except for emergency purposes. And more systematic appropriations and controlling accounts will disclose any evidences of waste, incompetence or irregularity responsible for deficiencies incurred. Besides, a governor committed to a balanced program of expenditures and revenue will exert strong and constant pressure upon departments and institutions to live within their allotted income. Failure to do so will publicly discredit the executive's capacity for financial planning and control.

Headings of the executive appropriation bills, though less detailed, will be uniform with the classification of estimates. Such classified headings will eventually be standardized for all estimates, appropriations and controlling accounts. This standardization will facilitate a fair comparison of the operating costs and efficiency of state departments, with respect to equipment, commodities and personal service; narrowly restrict the use of contingent funds; and subject the expenditure of special and general funds to a similar measure of budgetary control.

Joint meetings of the house and senate appropriations committees will attract attention, conserve time and hasten agreement of the two branches upon a financial program, thus eliminating the confusion and error incident to last minute amendments by one house or the other.

The constitution prevents a limitation upon legislative power to increase executive budget recommendations, and with the Pennsylvania governor's veto power such restriction is hardly necessary.

However, some arrangement must eventually be made whereby the governor's budget bills shall be given a preferred legislative status in the manner contemplated by the budget amendment. Without a definite guarantee of early legislative action upon the executive budget bills, the danger of hasty enactment of appropriation acts in the closing days of the session is not fully removed. But, under the proposed budget law such enactment would be tempered by complete financial information not now available to the legislature.

Unless the incoming governor has access to the budgetary information collected by his predecessor, he will be greatly handicapped in formulating a financial program and will treat with scant respect such recommendations as the retiring executive may make.

Further Requirements for an Effective Budget System

For the most effective operation of a budget certain supplementary legislation is desirable.

Adoption of the calendar year for all state business is necessary to eliminate the confusion now incident to the differing financial, appropriation and tax years; simplify the state's book-keeping methods; and increase the reliability of fiscal estimates for budget making purposes.

Merging of "ear-marked" funds with the general fund is needed to prepare a balance sheet of state finances, to subject all departments to budgetary control, and to simplify the problem of maintaining adequate cash balances without tying up unusually large amounts of money or making temporary loans. In lieu of abolition such special funds when not currently needed for a dedicated purpose may be made available to meet demands upon the general fund.

In formulating its executive budget plan our committee has proceeded cautiously and with an eye for facts only. We have carefully checked and supplemented our first-hand knowledge of state finances with a scientific study of state budget systems, begun by the State Chamber's Research Director eighteen months ago and completed early this year. This research study is printed with our report and contains the most complete appraisal extant of Pennsylvania's appropriations methods, the technique and operating results of budget systems in the American states.

We have evolved no fiscal "cure-all." But we believe that installation of our proposed executive budget will remedy the principal defects in Pennsylvania's method of expending public funds, and secure for the Commonwealth the substantial advantages of budgetary control now accruing to the states having the most practical and approved budget systems. To

obtain these results, however, will require capable and faithful state officials, supported or criticized—as occasion warrants—by an alert electorate reliably informed of the state's needs, its financial condition and problems. Though absorbed in local affairs on the one hand, and attracted by national issues on the other, we can ill-afford to neglect state government which vitally affects ninety per cent of all of our personal and business relations.

PENNSYLVANIA'S APPROPRIATION METHODS

AND

BUDGET SYSTEMS IN THE STATES

Survey by LEONARD P. FOX, Ph. D.

Director of the Research Bureau

Pennsylvania State Chamber of Commerce

Under the Supervision
of the State Budget Committee

April, 1922

CHAPTER I

METHODS OF APPROPRIATING STATE FUNDS IN PENNSYLVANIA

A Need for Appraisal of the State's Financial Methods

A critical appraisal of Pennsylvania's methods of appropriating public funds is particularly timely and urgent in view of

- (1) budgetary progress in the states,
- (2) mounting cost of our state government, and
- (3) the present controversy over the state's financial condition.

Following approved business practices, the Federal Government and all of the states except Rhode Island and Pennsylvania have established a permanent budget procedure. Advocates of a budget system for Pennsylvania need not be disheartened by rejection of the recent call for a constitutional convention promising speedy adoption of a budget system. The door to an individual budget amendment is still open. Moreover, only three states—Maryland, Massachusetts and West Virginia—of the forty-six now operating under a budget plan incorporated it in their state constitutions, forty-three having installed it by legislative enactment.

In the 1921 legislature an act to submit the Constitutional Commission's executive budget amendment to popular vote passed the house but died in the senate committee on appropriations. A bill creating a budget commission consisting of the governor, auditor general and state treasurer was adopted by the house but held up by the same senate committee. Another executive budget bill never reached the floor of the senate because it was not reported out by the appropriations committee.

The need for economy in state expenditures makes this rejection of a budget system especially ill-timed. From Table I, it appears that the state's annual appropriations have in-

creased from \$13,000,000 twenty years ago, to \$31,000,000 ten years ago, and \$58,000,000 in the current biennium.

Recently Main and Company's audit of state accounts revealed that the Commonwealth now owes, or has pledged for expenditure in this biennium, a sum of money probably in excess of the estimated revenues it can collect. The audit indicates a net appropriation liability, May 31, 1921, of \$139,382,027.72, including payments due to municipalities from receipts of foreign fire insurance companies and obligations under the acts of 1915, 1917, 1919 and 1921. To this liability for the two year period ending May 31, 1923, will be added such deficiencies as no doubt will occur prior to that date, which for the period ending May 31, 1921, amounted to \$8,606,843.63; also such liabilities as will arise in carrying out the provisions of acts similar to that establishing the Wyoming Valley Memorial Park.¹ In approving appropriations by the last legislature, the governor estimated the maximum income of the state for 1921-1923, at \$114,000,000. The expert accountants claim that deduction of ear-marked and non-revenue funds from this amount reduces the available revenue to \$89,000,000, plus \$22,000,000 expected from new taxes.² But the gasoline tax will yield only \$3,000,000; the coal tax estimated at \$12,000,000 to \$15,000,000 may be found unconstitutional; the increase in the collateral inheritance tax is problematical; and business depression may diminish returns from the corporation taxes. Therefore, the state faces a possible deficit of more than \$20,000,000 at the end of the biennium.

On the other hand, the state treasurer predicts a surplus of \$2,000,000 at the close of the present appropriation period. New taxes and increased yield from old levies, owing to the normal expansion of business, will assure total receipts of \$106,000,000.³ Payments made prior to June 1 reduced the 1921

(1) Accountants Report to the Auditor General Showing Financial Status of the Commonwealth of Pennsylvania, May 31, 1921, pp. 2-3

(2) Philadelphia Public Ledger, September 18, 1921.

(3) This is an optimistic estimate; for in 1921 the general fund receipts of \$47,215,826, excluding the gasoline tax, exceeded those of 1920 by only \$1,426,572. Harrisburg Telegraph, December 3, 1921.

TABLE I

APPROPRIATIONS BY THE LEGISLATURE OF PENNSYLVANIA

(From Smull's Legislative Hand Books and Files of Reorganization Commission, 1922)

Sessions	Total Appropriations		Deficiencies
1901	\$27,588,719.30 (1)	..... \$46,000.00
1903	35,405,723.78	..... 195,941.23
1905	41,377,216.25	..... 145,410.53
1907	47,631,150.45	..... 83,469.31
1909	52,297,468.41	..... 1,016,112.25
1911	59,339,528.03 (2)	..... 2,499,319.64
1913	66,209,141.22	..... 2,544,882.87
1915	67,470,686.15	..... 2,664,172.69
1917	82,203,618.50	..... 1,011,658.76
1919	103,862,431.20	..... 3,161,297.42
1921	116,701,078.72	..... 8,275,822.47

(1) Division: 1901—\$13,223,876.84
1902— 14,364,842.46

(2) Division: 1911— 31,146,764.67
1912— 28,807,434.37

TABLE II.

COMMONWEALTH OF PENNSYLVANIA

Statement of Cash Receipts and Disbursements of General Fund,

Dec. 1, 1915 to May 31, 1921.
(Main & Company's Report)

	Dec. 1, 1915 to Nov. 30, 1916	Dec. 1, 1916 to Nov. 30, 1917	Dec. 1, 1917 to Nov. 30, 1918	Dec. 1, 1918 to Nov. 30, 1919	Dec. 1, 1919 to May 31, 1920	TOTALS
Net Cash Receipts Gen- eral Fund,	\$35,904,365.49	27,548,969.79	38,855,060.14	43,637,583.83	45,789,253.89	22,223,627.54 213,958,860.68
Less Expenditures,	34,638,714.99	25,446,495.59	37,052,531.04	44,099,464.77	48,033,354.23	27,874,277.68 217,144,838.30
General Fund Receipts in						
Excess of Disbursements,	\$1,265,650.50	2,102,474.20	1,802,529.10	461,880.94	2,244,100.34	5,650,650.14 3,185,977.62
CASH BALANCE, December 1, 1915,						\$3,194,258.20
CASH BALANCE, May 31, 1921,						8,280.58

appropriation liability to less than \$114,000,000; and a further cut of \$10,000,000 is in sight through savings from appropriations never used (normally, 10 percent) and the nullification of grants to sectarian institutions. The treasurer, therefore, anticipates an appropriation liability of \$104,000,000 in the present biennium.⁴ This forecast apparently disregards the continuing obligations under the acts of 1915, 1917 and 1919.

Further evidence of the hit-or-miss relationship between state expenditures and income is afforded by the deficiency appropriations made in the past twenty years (Table I) and the excess of general fund disbursements over receipts, December 1, 1915, to May 31, 1921 (Table II).

Confused by these contradictory fiscal forecasts, the public demands more light upon state finances. This situation strengthens the sentiment for a system of budgetary control compelling the state like any sound business concern to live within its income.

Lack of Unity and Coordination in Presentation of Appropriation Bills and Revenue Measures

In the business world no undertaking can be efficiently administered which does not have a system of accounts and reports that will permit the directing body and the stockholders to secure a complete and accurate picture of past operations, present conditions and future program of activities. Such information on state finances is not now available to the legislature and governor. Yet they direct and manage a great business enterprise extending service to its citizen-stockholders at a cost of over \$80,000,000 a year.

In Pennsylvania little is done to focus attention of the legislators and public upon the state's financial and work program as a whole. Neither constitution nor statute effectively centralizes responsibility in any official or board for the formulation and submission to the legislature of a complete expenditure program. No single document records the estimates and proposes a comprehensive plan of expenditures commen-

(4) Harrisburg Patriot, August 5, 1921.

surate with the anticipated revenues of the state. Legislative appropriations, therefore, are made in a piecemeal and haphazard manner; income and outgo are not properly balanced.

Corresponding in part to the complete budget estimates in other states is a general appropriation bill prepared by the house appropriations committee on the basis of departmental requests and introduced in the house by the chairman of the appropriations committee. It provides for the ordinary expenses of the three major departments, interest on the public debt, support of the public schools and bills incurred but unpaid. In the last session this bill of 103 folio pages was introduced on March 7, carrying a total appropriation of approximately \$59,000,000, less than one-half of the entire funds eventually voted by the legislature. It merely itemizes appropriation requests by organization units and objects of expenditure. For want of a summary table the individual legislator must compute the grand total and the amount voted to a particular department or bureau. He is unable to determine the cost of a specific function within an organization unit.

Supplementing the general appropriation bill are numerous private bills granting money to state institutions, private, charitable and educational institutions, governmental departments and commissions, highways and other public undertakings. In the last legislature, over 600 such bills were introduced, in some cases involving duplication of expenditure proposals in the two houses; and in 1921 the governor approved 450 separate appropriation measures. On this practice the comment of Odell Hauser is especially pointed:⁵

"Such bills may be and are habitually introduced into either the Senate or the House. The introduction of such a bill is an entirely individual matter. No one is responsible for it but the member who introduces it. As a matter of fact, the phrase, 'getting an appropriation from the State,' illustrates the way those of us who are in active touch with the system think of it.

(5) Philadelphia Public Ledger, May 8, 1921.

Article III, section 14, of the state constitution provides that, "All bills for raising revenue shall originate in the House of Representatives, but the Senate may propose amendments as in other bills."

"It is not that the State is the initiating factor which appropriates its funds, but that individuals who want to get money from the State are the ones who initiate action. If there is no one who is sufficiently interested in a certain project to initiate action toward an appropriation for that project, it will go without. There is no one definitely and legally charged with the responsibility of seeing that all the projects for which the State should appropriate money are looked after."

The constitution encourages but does not necessitate this lack of unity in the state's plan of expenditures. Article III, section 15, provides:

"The general appropriation bill shall embrace nothing but appropriations for the ordinary expenses of the executive, legislative and judicial departments of the Commonwealth, interest on the public debt and for public schools; all other appropriations shall be made by separate bills, each embracing but one subject."

This provision does not prohibit formal executive recommendations for all state appropriations, general and special, enabling the legislator to visualize the total demands upon the state treasury. Though not embodied in separate bills, such recommendations for special appropriations could serve as a basis for the individual appropriation bills required by the constitution. However, inertia, unwillingness to assume financial leadership, or fear of being charged with usurpation of legislative functions have disposed governors to influence special appropriation bills only by private conferences with committees or individual legislators. In the past the governor has not even approved the recommendations of the state board of charities for legislative guidance in grants to benevolent institutions receiving state aid.

Inadequate Information on Expenditures and Revenues Available to the Legislator

What information on the state's financial condition is submitted to the legislators considering this piecemeal appropriation program?

Section 46 of the Laws of Pennsylvania, 1810-1811, page 156, provides:

"The State Treasurer shall on the fourth Monday in December, annually, make report to the legislature exhibiting in detail the receipts and expenditures of the state treasury for the preceding year, ending the last day of November, designating the name of every person from whom moneys were received and to whom moneys have been paid, and on what account . . ."

Under sections 1 and 2 of the Laws of Pennsylvania, 1831-1832, page 154:

"(1) It shall be the duty of the State Treasurer to digest, prepare and lay before the General Assembly, at the commencement of every session, a report on the subject of finance, containing estimates of the public revenue and public expenditures and plans for the support of public credit, and for improving or increasing the revenues from time to time, for the purpose of giving information to the General Assembly in adopting modes of raising money requisite to meet the public expenditure.

"(2) It shall be the duty of the State Treasurer to annex to the annual estimates of the appropriations required for the public service of the year, (appropriations) which may have been made by former acts, and also a statement of the sums remaining in the treasury from the appropriations of former years, estimating the amount of those sums which will not be required to defray expenses incurred in a previous year, and showing the whole amount which will be subject to the disposition of the government in the year to which the estimates apply."

The auditor general, by the same act of 1811, is required on the fourth Monday in December, annually, to make a report which shall exhibit in the abstract a statement of the finances of the Commonwealth.

By an act of 1919, all reports to be made annually under existing law, shall hereafter be made biennially only. All such reports shall be made to the governor, not later than the first day of June of each odd-numbered year, and shall cover the report of the department, board, bureau, division or commission, for the two years immediately preceding. Such reports shall be printed and distributed only on order of the governor.⁶

(6) Act No. 68, P. L. 1919, p. 89.

Owing to the high cost of printing and other reasons, no printed reports of the auditor general and state treasurer have been issued since 1917 and 1918, respectively. In the 1921 session a resolution requesting these officers to prepare and lay before the general assembly at the earliest possible moment an account and report, as provided in the acts of 1811 and 1832, was referred to the house committee on ways and means. No further action was taken on this resolution; for such accounts and reports for 1919 and 1920 were presumably made to the governor, and the act of 1919 vested him with sole authority for their publication and distribution.

The 1918 treasurer's report devotes seventeen pages to statements of the general and special funds at the close of the fiscal year, November 30, 1918; comparative and summary statements of receipts for the years 1917 and 1918; and comparative and summary statements of expenditures for the years 1917 and 1918, by organization units and sundry activities. A detailed statement of receipts and expenditures by months fills the remaining 1360 pages.

As budgetary information the detailed statement of receipts from and expenditures to persons is practically valueless. A century ago when state revenue was less than \$2,000,000 such statement may have contributed to an understanding of state finances. Today when annual revenue exceeds \$80,000,000 such bulky and undigested statement merely annoys and confuses the legislator. The comparative summary of expenditures has a limited utility owing to the lack of complete and uniform classification according to organization units, functions and objects. For budget purposes the treasurer's report is further impaired by non-compliance with sections 1 and 2 of the act of 1832 covering annual estimates of receipts and expenditures.

In partial compliance with the demand for publication of the financial reports under the acts of 1811 and 1832, the recent legislature was given an unsigned summary statement of receipts and expenditures for 1919 and 1920. By including special (ear-marked) and non-revenue funds in the general fund receipts, this statement showed revenues for the general fund in 1919 of \$52,019,760, instead of the actual \$43,637,000, and in

1920, \$62,071,293, instead of the actual \$45,789,000. Hence the legislature of 1921 was misled to base its appropriations upon an expected revenue of \$114,000,000, excluding new taxes, in contrast with the probable income of \$89,000,000. The legislature was further uninformed of a balance of \$27,000,000 due upon continuing appropriations by the acts of 1915, 1917, 1919.⁷

This informal report violated sections 1 and 2 of the act of 1832 and verified the prediction of the *State Economy and Efficiency Commission* (1917) that in time the creation of special funds would make it impossible for the fiscal officers of the Commonwealth to strike a trial balance.⁸

The auditor general's report for 1917 contains a summary of receipts by sources for the current fiscal year; a balanced statement of revenues and expenditures by decades from 1850 to 1910, and by years from 1910 to date; a statement of the public debt; a statement showing the amount of stock held by the Commonwealth in sundry corporations; a statement of the Commonwealth's revenues in 1917, detailing the public officer, the person, firm or corporation from whom received; and a detailed statement of expenditures in 1917 by organization units. Thirteen pages are given to the summary tables; nearly six hundred to the detailed statement of receipts and disbursements. Including less comparative data, the auditor general's report is even less useful for budget purposes than the treasurer's. An expert accountant of national reputation thus commented upon a similar but earlier report of the auditor general:⁹

"It includes a detailed statement of expenditures classified according to organization units. For each organization a list of the payees appears in complete detail with the result that in 1914, the statement covered three hundred and twenty-two

(7) Philadelphia Public Ledger, September 18, 1921.

(8) Report of the Solicitor of the Economy and Efficiency Commission of the Commonwealth of Pennsylvania, 1917, p. 25.

(9) Oakey, F. O., Principles of Government Accounting and Reporting, Appleton, 1921, p. 390.

printed pages. A statement of expenditures of this character is of practically no use. There is no classification of expenditures according to functions, character or objects."

The legislature must needs act upon appropriation and revenue bills without adequate information. No official estimate and analysis of available or proposed state revenues accompany the general appropriation bill. No balanced statement of general and special funds is placed in the legislator's hands. He lacks summary and detailed data comparing the general and special expenditures proposed with the costs for the current and two preceding fiscal years, classified by organization units, character, functions and objects. He has no accurate data facilitating a comparison of specific state services on the basis of utility, efficiency and operating costs.

Little wonder that the speaker of the 1921 house complained:¹⁰

"It's an outrage to have the House going into the final weeks of the session without adequate and comprehensive knowledge of the State's financial condition. There is no excuse for it and the House, apparently, never profits by experience. The same condition has existed year in and year out."

The sponsor of a budget bill passed by the last house wrote to the *Philadelphia Public Ledger*:¹¹

"Speaking for those serving in the Legislature in 1921 * * * I can state that there was no subject upon which it was more difficult to obtain positive information than the actual condition of State finances. There had been no printed report of the Auditor General since 1917, and the provisions of the Act of March 16, 1832, which required the State Treasurer to digest, prepare and lay before the General Assembly at the beginning of the session a report on the subject of finance, containing estimates of the public receipts and public expenditures, were not complied with."

(10) R. S. Spangler in Harrisburg Patriot, April 8, 1921.

(11) F. S. Edmonds in Philadelphia Public Ledger, October 24, 1921.

Ineffective Consideration of Appropriation Bills by the Senate and House Appropriations Committees

The appropriations committees of the house and senate (53 and 43 members, respectively, in 1921) do not meet jointly to consider expenditure proposals. Occasionally they hold joint public hearings on specific bills only, neglecting the opportunity to concentrate public attention upon a careful scrutiny of State expenditures as a whole.

In the early months of the session there is an undigested mass of appropriation bills lying in the house and senate. No one—not even the chairmen of the two appropriations committees—know the approximate totals requested, what further requests may be expected, and the date of their presentation. The most important single appropriation bill, the general appropriation bill, is introduced in the house only in skeleton form. “It does not mean a thing as it first comes into the house. It lies with all the other bills calling for money until such time as life is breathed into it.

“The time for breathing life into the appropriation bills comes during the last two weeks of the session. At about this period the chairmen of the senate and house appropriations committees seem mysteriously to awaken to the fact that there are a lot of bills in their committees which require action. With their two clerks and their combined experience of previous sessions as a guide, they go over these bills and begin the combing and reduction process. They are aided by the results of hearings they have held on particular bills.

“They generally meet with the Governor and go over the situation with him. Sometimes they consult with the Auditor General and the State Treasurer. From the combined wisdom of these men the bills are now reduced in amount and gotten into some kind of order.”¹²

Effective consideration of appropriation bills in the meeting of the house and senate appropriations committees is impossible. The individual member is bewildered by a general appropriation bill of over 100 pages, carrying \$50,000,000 or

(12) Odell Hauser in Philadelphia Public Ledger, May 8, 1921.

more, and some 600 individual appropriation bills scattered between the committees of the house and senate. In the 1921 legislature, bills were introduced carrying appropriations of \$180,000,000.¹³ Lacking summary and detailed statements of expenditures proposed, in comparison with costs for similar activities in the current and preceding fiscal years, the committee member has no comprehensive understanding of state finances. Moreover, there is no provision for early presentation of a revenue program should existing sources prove inadequate. Yet until the member knows whether the revenue in sight will be adequate, or, it not, how it can and will be increased, he can not intelligently balance expenditures against each other and the total income.

Piecemeal, Haphazard and Hasty Action upon Appropriation and Revenue Measures by the Senate and House

Under these circumstances the mass of bills is flung into the house and senate in the last hectic days of the session. Few legislators know much about the appropriations as a whole, except the chairmen of the appropriations committees, their clerks and a small group of party leaders. Generally the legislator looks out for the individual bills he has sponsored and takes the others on faith—accepts the committee recommendations. This situation inspires log-rolling and trading of votes among members to get funds for their local institutions or political friends—a process not conducive to economy or aid to the most worthy. The legislator loses sight of available state revenue, the importance of his project in the state's work program as a whole, and the relative utility and efficiency of various services performed by public and private agencies.

Generally bills are jammed through the houses by perfunctory roll calls, most of them in the few days before adjournment. In the 1919 session, closing June 26, 378 appropriation bills carrying \$36,000,000 were passed in the second week before adjournment; and 56 bills carrying nearly \$52,000,000 in the last week. Inaction of the legislative leaders will force

(13) Philadelphia Public Ledger, April 25, 1921.

the governor to sponsor revenue bills at the end of the session, perhaps, when time does not permit deliberate discussion or careful estimate of their yield. Consequently, the legislature adjourns without knowing the total expenditures and revenues authorized and consigns to the governor the task of proportioning expenditures to relative needs and available income.

In this connection Article IV, sections 15 and 16, of the state constitution is pertinent.

“Section 15. Every bill which shall have passed both Houses shall be presented to the Governor; if he approve he shall sign it, but if he shall not approve he shall return it with his objections to the House in which it shall have originated, which House shall enter the objections at large upon their journal, and proceed to re-consider it. If, after such re-consideration, two-thirds of all the members elected to that House shall agree to pass the bill, it shall be sent with the objections to the other House by which likewise it shall be re-considered, and if approved by two-thirds of all the members elected to that House it shall be a law; but in such cases the votes of both Houses shall be determined by yeas and nays, and the names of the members voting for and against the bill shall be entered on the journals of each House respectively. If any bill shall not be returned by the Governor within ten days after it shall have been presented to him, the same shall be a law in like manner as if he had signed it, unless the General Assembly, by their adjournment, prevent its return, in which case it shall be law, unless he shall file the same, with his objections, in the office of the Secretary of the Commonwealth, and give notice thereof by public proclamation within thirty days after such adjournment.

“Section 16. The Governor shall have power to disapprove of any item or items of any bill, making appropriations of money, embracing distinct items, and the part or parts of the bill approved shall be the law, and the item or items of appropriation disapproved shall be void, unless re-passed according to the rules and limitations prescribed for the passage of other bills over the executive veto.”

Governor's Reduction of Appropriation Bills to Balance Revenues and Expenditures

The governor's examination and consideration of appropriation and revenue bills, in the thirty day period following adjournment of the legislature, affords the first opportunity for a

systematic and comprehensive survey of state finances. Appropriation bills are summarized and compared with past grants and estimated income from existing and proposed revenue measures. As a rule the governor finds it necessary to reduce materially the money voted by the legislature. Upon adjournment of the last session it was thought that appropriations passed totaled \$135,000,000. The governor's examination indicated a total of \$141,000,000.¹⁴ During the session revenue in the next biennium was first estimated at \$90,000,000 to \$100,000,000 and later at \$114,000,000. With the approval of the coal, gasoline and collateral inheritance tax bills, the governor cut the appropriations \$25,000,000 to balance them with an estimated revenue of approximately \$114,000,000. These reductions are necessarily made in a more or less arbitrary and rule-of-thumb manner; for the governor lacks an agency competent to supply complete and accurate information on state needs, based upon a current operation study of the Commonwealth's activities.

If the governor ought to be entrusted with the power to veto items of appropriation after the legislature adjourns, when his word is final, can he not alone or in conjunction with a budget board be entrusted with full power to prepare for legislative review and action the financial program of the state? Submission of a tentative appropriation and revenue plan by the governor or administrative board, allocating funds according to relative needs and services of state and state-aid agencies, would enable the legislature to visualize state finances as a whole and facilitate deliberate and informed action upon appropriation bills prior to the congested closing days of the session.

Such financial plan would also help to fix responsibility for the apportionment of public funds. For the correlation of appropriations and income the governor is clearly responsible. Since the governor can reject or reduce, but not increase, appropriation items it is desirable that during the session the gov-

(14) Philadelphia Public Ledger, May 8, 29, 1921.

The usual lapsing of 10% of appropriations would reduce the \$116,701,078 approved to the estimated income.

ernor and legislature should be on record concerning grants which one or the other regards as excessive or inadequate. Then the public could determine responsibility for the neglect of state needs, and also challenge the good faith of the legislator claiming to vote for an appropriation in ignorance of its probable veto to balance expenditures with receipts.

Lack of Adequate Control over Expenditures

The state has made inadequate provision for economical control of its expenditures.

There is no effective check on the evil of the "deficiency" appropriation. A department, board or institution is not required to live within its income by carefully extending its appropriation over the entire biennium. On the contrary, it may exhaust its regular appropriation before the end of the two year period and then petition the next legislature for a deficiency grant to cover bills incurred but unpaid. This practice has been chronic in the past twenty years as an examination of Table II reveals; and continuance at its present rate of increase will develop a public scandal. The deficiency habit encourages waste and extravagance. It is reflected in cumulative deficits in the general fund which postpone rather than avert the day of financial judgment.

Continuing and special appropriations render it increasingly difficult to close state accounts at the end of the fiscal year and prepare a balanced statement of the state's finances as a basis for new appropriations.

At present there are twenty-two ear-marked funds not available for meeting general fund obligations.¹⁵ Since December 1, 1915, these special funds have increased as indicated in Table III. In reckoning the cost of state government, the public overlooks the growing proportion of receipts dedicated to special purposes and gets an incomplete picture of state revenues and expenditures.

(15) Chart of State's Income, December 1, 1920, to November 30, 1921, prepared by H. S. McDevitt for the Commission on Reorganization of the State Government of Pennsylvania, March, 1922.

Such funds give a very wide discretion to the spending officers of certain departments. They also tend to impoverish the general fund, prohibiting the treasurer from taking advantage of cash discounts and meeting urgent demands for funds appropriated, while large balances are accumulated and frozen in the ear-marked accounts. Consequently, the state can not purchase as economically as a private concern, and institutions and other agencies are forced to borrow money and incur interest charges involving additional deficiency appropriations.

The discretionary use of contingent funds permits the expenditure of thousands of dollars annually for payment of accounts that have not been audited. "What a contingent fund may be used for has never been defined by Act of Assembly, but it is usually left to the discretion of the several Departments, subject, of course, to approval by the Auditor General and State Treasurer. * * * * Advances from these appropriations are made to the Departments, and after they have been expended, vouchers are filed in the Auditor General's office, together with requisition for another advance. This system of advances continues throughout the entire appropriation of two years, so that such expenditures are made by Departments as a rule several months before the accounts are audited."¹⁶

Finally dissimilarity of bookkeeping and accounting systems in state departments and institutions violates sound principles of private and public finance. It renders impossible the comparison of unit costs in departments and institutions performing identical or similar services and complicates the problem of proportioned appropriations and effective audit. Yet under present law the auditor general lacks power to establish and supervise uniform and cost accounting in the numerous agencies expending funds of the Commonwealth.¹⁷

(16) Report of the Solicitor of the Economy and Efficiency Commission, 25.

(17) Ibid., 32.

TABLE III

COMMONWEALTH OF PENNSYLVANIA

Summary Statement of Cash Receipts—By Funds—

December 1, 1915 to May 31, 1921

	Dec. 1, 1915 to Nov. 30, 1916	Dec. 1, 1916 to Nov. 30, 1917	Dec. 1, 1917 to Nov. 30, 1918	Dec. 1, 1918 to Nov. 30, 1919	Dec. 1, 1919 to Nov. 30, 1920	Dec. 1, 1920 to May 31, 1921
General Fund (net), ..	\$35,904,365.49	27,548,969.79	38,855,060.14	43,637,583.83	45,789,253.89	22,223,627.54 (b)
Special Funds (a),	758,673.74	5,497,480.78	6,160,983.26	19,924,165.80	29,446,004.64	12,662,157.01 (b)
Sinking Fund						
School Fund						
Bounties Fund						
Insurance Fund						
Game Propag., etc.						
Prison Mfg.						
Motor Registration, etc.						
Fish Propagation						
Vocational Education						
State Bond Road						
Banking						
Employees Annuity Saving						
State Annuity Reserve No. 2						
Dept. Agriculture—Experimental						
State Bond Road Sinking						
TOTALS,	\$36,663,039.23	33,046,450.57	44,016,043.40	63,562,749.63	75,235,258.53	34,885,784.55

(a)—The legislature of 1921 created seven new special funds—resident fish license, dog fund, insurance tax fund, industrial rehabilitation, gasoline tax sales, grade crossing and engineers fund.
 (b)—For the fiscal year ending November 30, 1921, general fund receipts were \$47,575,289; special fund receipts, \$35,149,396.

CHAPTER II

THE BUDGETARY MOVEMENT IN THE STATES

In the United States the years between the Civil War and the World War have aptly been called The Age of Big Business. The states, of course, shared in the functioning of government in new and enlarged fields necessitated by the development of business and industry and the congestion of population in cities.

This normal expansion of state government accentuated by the emergencies of the World War is reflected in the increase of total per capita state revenues cited below:

1913	.....	\$3.80
1915	.....	4.66
1916	.....	4.67
1917	.....	5.14
1918	.....	5.69
1919	.....	6.48

These years also developed a well marked trend toward the extension of direct state taxes upon business. In 1913 the states received 46.5 per cent of their total revenue from the general property tax and 45 per cent in 1919. In 1913, 22.5 per cent were received from special property taxes, whereas only 19.8 per cent came from this source in 1919. On the other hand, business taxes rose from 17.8 per cent of the aggregate revenues in 1913 to 23.2 per cent in 1919.¹

The substantial increase in the cost of state government created the alternative of narrowing the scope of public activities or remodelling governmental machinery in the interests of economy and efficiency. A first step in the latter direction was taken in two states about ten years ago, namely, the introduction of a budget system to avoid waste in state expenditures, by definitely fixing responsibility for unified and systematic control over revenues and expenditures.

(1) Annals of the American Academy of Political and Social Science, May, 1921, pp. 146-147.

Definition of Budget

A budget has been defined as a plan of expenditures for a definite period based on a careful estimate of needs and resources, together with definite proposals for financing these expenditures.² Reduced to its simplest terms a budget involves answers to three questions:³

"1. How much money will be needed for the conduct of the government during the fiscal year?

"2. What money is on hand? From what source is more expected?

"3. What shall be the amount appropriated to each function of government?"

The following essentials, however, should be included in a comprehensive budget system, according to the Ohio Institute for Public Efficiency:⁴

"1. A definite program of work and plans for financing that work, to be submitted by a responsible official, preferably the chief executive, to the legislative body, together with such data as may be necessary to furnish a proper understanding of the proposals.

"2. Proper consideration of and action upon this financial plan by the legislative body, to authorize the raising and expenditure of funds by the designated officials.

"3. Proper independent audit of financial transactions to insure that the moneys due are collected, accounted for or expended in accordance with the authorization of the legislative body."

To secure the full benefits of budgetary control the budget must be regarded primarily as a work program and only secondarily as an accounting problem. As Gladstone remarked, "Budgets are not merely affairs of arithmetic but in a thousand

(2) Reorganization in the State Government, New York State Reconstruction Commission, 1919, p. 303.

(3) Fitzpatrick, E. A., Budget Making in a Democracy, Macmillan, 1918, p. 15.

(4) A State Budget System for Ohio, Ohio Institute for Public Efficiency, Columbus, 1920, p. 3.

ways go to the root of the prosperity of individuals, relations of classes, the strength of kingdoms.”

On this point the comments of the New York Institute for Public Service are especially suggestive:⁵

“For decades American cities, states and national government have penalized the public by failing to tell the truth about neglected needs and by focusing attention on the money side of budgets while wearing blinders on the work side.

“Wherever needs are frankly and intelligently stated experience shows that lesser needs give way to greater needs. It is not true that money is more easily wasted where budget estimates start with a frank listing of needs. On the contrary, it becomes extremely difficult to get money for waste if neglected needs are put in competition with waste. The reason federal budgets have by common consent carried waste by the hundreds of millions is that they have been treated as fiscal budgets, not as work budgets.”

Adoption of Budget Acts

Beginning with California in 1911 and Wisconsin in 1913 the budget idea has been accepted by forty-six states in the past decade. Of this number only three—Maryland, 1916, Massachusetts, 1918, and West Virginia, 1918—incorporated a budget system in their constitutions, the others installing it by legislative enactment. Three states established a permanent budget procedure in 1913—Arkansas, Ohio and Oregon; seven states, in 1915—Connecticut, Iowa, Minnesota, Nebraska, North Dakota, Washington and Vermont; four states, in 1916—Louisiana, Maryland, New Jersey and New York; six states, in 1917—Illinois, Kansas, New Mexico, South Dakota, Tennessee and Utah; six states, in 1918—Georgia, Kentucky, Massachusetts, Mississippi, Virginia and West Virginia; fourteen states, in 1919—Alabama, Arizona, Colorado, Idaho, Maine, Michigan, Montana, Nevada, New Hampshire, North Carolina, South Carolina, Oklahoma, Texas and Wyoming; and four states, in 1921—Delaware, Florida, Indiana and Missouri.

(5) Report of the Michigan Community Council Commission to the Michigan State Legislature, Chapters 1 to 5, 1921, based upon an Organization Survey of the Institute for Public Service, pp. 66-67.

In 1919, Connecticut, Nebraska, New Mexico, South Dakota and Vermont revised their budget laws; in 1921, California, Idaho, Michigan, Montana, Nebraska, Nevada, North Carolina, New York, Ohio, Oregon, South Dakota, Utah and Washington. These revisions affected details rather than the type of budget, except in Oregon which changed from the executive to an administrative budget, and New York which substituted an administrative-legislative budget for its legislative budget.

Four Types of State Budgets

The budget plans adopted by the states are classified under four types with reference to the location of responsibility for the initiation of the budget:

1. The executive type—the governor is made responsible for the formulation of the budget;
2. The administrative type—a board of administrative officials serving *ex-officio* or by appointment of the governor, is responsible for the preparation of the budget;
3. The administrative-legislative type—a board of administrative and legislative officials serving *ex-officio* or by appointment of the governor prepares the budget; and
4. The legislative budget—a legislative committee formulates the budget.

As shown by Table IV, twenty-four states now operate under an executive budget; thirteen under an administrative budget; eight under an administrative-legislative budget; and one under a legislative committee budget. The executive budget continues to predominate in the states, but the budget boards or commissions have increased substantially since August, 1919. At that time twenty-two states had an executive budget; nine, an administrative budget; six, an administrative-legislative budget; and two, a legislative budget. The governor is a member of nine of the present administrative budget boards and appoints a majority of the four remaining boards. He is in every case a member of the eight administrative-legislative budget boards. Table V indicates the precise personnel of each budget board.

TABLE IV

CLASSIFIED LIST OF STATE BUDGET SYSTEMS

Executive Type	Administrative Board Type	Administrative-Legislative Board Type	Legislative Type
Arizona, .....1919	Alabama, .....1919	Georgia, .....1918	Arkansas, .....1913
Colorado, .....1919	California, .....1911, 1921	Maine, .....1919	
Delaware, .....1921	Connecticut, .....1915, 1919	New York, .....1916, 1921	
Idaho, .....1919, 1921	Florida, .....1921	North Dakota, ....1915	
Illinois, .....1917	Kentucky, .....1918	North Carolina, ...1919, 1921	
Indiana, .....1921	Louisiana, .....1916	South Dakota, ....1917, 1919, 1921	
Iowa, .....1915	Michigan, .....1919, 1921	Vermont, .....1915, 1917, 1919	
Kansas, .....1917	Montana, .....1919, 1921	Wisconsin, .....1913, 1915, 1917	
Maryland (a), ....1916	Oregon, .....1913, 1921		
Massachusetts (a), 1918	Tennessee, .....1917		
Minnesota, .....1915	Texas, .....1919		
Mississippi, .....1918	Washington, ...1915, 1921		
Missouri, .....1921	W. Virginia (a), 1918		
Nebraska, .....1915, 1919, 1921			
Nevada, .....1919, 1921			
New Hampshire, ..1919			
New Jersey, .....1916			
New Mexico, .....1917, 1919			
Ohio, .....1913, 1921			
Oklahoma, .....1919			
South Carolina, ...1919			
Utah, .....1917, 1921			
Virginia, .....1918			
Wyoming, .....1919			

Legends: (a) Adopted constitutional amendment.

Year in italic indicates date of amending budget law.

The Executive Budget in the States

The Maryland and Virginia budget systems originally found great favor among the states adopting the executive type of budget. Essentially, the difference between the two forms is that the Maryland amendment places limitations upon the power of the legislature to increase executive proposals, while the Virginia law does not.

I. Maryland and Related Group—Utah, Nevada, Indiana, New Mexico, Alabama and West Virginia

By constitutional amendment in 1916, Maryland established an executive budget in the fullest sense of the term. The main features of the state's budgetary procedure are summarized as follows:⁶

I. The governor is made responsible for the initiation of the budget.

II. *Preparation and filing of estimates.* Estimates are required to be made by all spending agencies to the governor at such time and in such form as he may prescribe. Estimates of legislature are certified by presiding officer of each house and those of judiciary by comptroller.

III. *Review and revision of estimates.* Governor may review by public hearings all estimates and may revise all estimates except those of legislative and judiciary departments and those relating to public schools.

IV. *Preparation of budget.* Governor shall prepare two budgets, one for each of the ensuing fiscal years.

V. *Form and contents of budget.* Each budget shall be divided into two parts:

1. "Governmental appropriations" including estimates of appropriation for (1) general assembly, (2) executive department, (3) judiciary department, (4) to pay and discharge principal and interest of state debt, (5) salaries payable by state under constitution and laws, (6) public schools, (7) other purposes set forth in constitution.

2. "General appropriations," including all other estimates.

Each budget shall contain a complete plan of proposed expenditures and estimated revenues, and shall show the estimated

(6) New York Reconstruction Commission's Report, 334-335.

TABLE V
PERSONNEL OF STATE BUDGET BOARDS

State	Ex-Officio													Appointed by Governor
	Administrative										Legislative			
	Governor	State Treasurer	State Auditor	State Controller	Secretary of State	Attorney General	Supt. of Education	Commr. of Agriculture	Tax Commissioner	Highway Commissioner	President of Senate Pro Tem	Speaker of House	Chairmen of Appropriations Committees	
Alabama State Budget Commission (a), California State Board of Control,	X	-	X	-	-	X	-	-	-	-	-	-	-	-
Connecticut State Board of Finance,	-	X	-	X	-	-	-	-	X	-	-	-	-	-
Florida Budget Commission,	X	X	-	X	-	-	-	-	-	-	-	-	-	-
Georgia Budget and investigating Committee,	X	-	-	-	-	X	-	-	-	-	-	S & H X	-	-
Kentucky Budget Appropriation Com- mission,	X	-	X	-	-	-	-	-	X	-	-	-	-	-
Louisiana Board of State Affairs,	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maine Committee on Budget,	X	X	X	-	-	-	-	-	-	-	-	S & H Y (h)	-	-

Three members appointed by governor; act as head of state board of finance.

Three electors appointed by governor for overlapping terms of six years.

Six members appointed by governor and confirmed by senate for overlapping terms of six years.

Three members appointed by governor; act as head of state board of finance.
Three electors appointed by governor for overlapping terms of six years.

Six members appointed by governor and confirmed by senate for overlapping terms of six years.

surplus or deficit of revenues. An accompanying statement shall show: (1) revenues and expenditures for each of two fiscal years next preceding, (2) balance sheet, (3) debts and funds, (4) estimate of state's financial condition at the end of the fiscal years covered by budget, (5) explanations by governor.

VI. *Submission of budget and consolidated appropriation bill to Legislature.* Governor shall deliver the budgets and a bill of proposed appropriations, clearly itemized and classified, to the presiding officer of each house within 20 days (if newly elected, 30 days) after the convening of the legislature.

VII. *Budgetary procedure in legislature.* The budget bill or appropriation bill, must be introduced immediately upon receipt. The governor may amend or supplement the bill while in the legislature.

Governor and administrative officers shall appear before the legislature to defend the budget bill.

VIII. *Legislative action on consolidated appropriation bill.* Legislature shall not amend the budget bill to change the public school funds, or salaries and obligations required by the constitution; it may increase or decrease items relating to the judiciary, but can only reduce or strike out others.

Legislature shall not consider other appropriations until the budget bill has been finally acted upon.

If budget bill is not enacted three days before expiration of regular session, the governor may by proclamation extend session.

Budget bill becomes law upon passage of the legislature without signature of governor.

IX. *Supplementary appropriation bills.* Every supplementary appropriation shall (1) be embodied in a separate bill, limited to a single purpose, (2) shall provide the revenues necessary to pay the appropriation by a direct or indirect tax, (3) shall receive the majority vote of the elected members of each house, (4) shall be presented to the governor and be subject to his veto.

X. *Expenditure and control of appropriations.* Appropriations are made to organization units in lump sum with itemized schedule attached. Each lump sum appropriation is paid out in accordance with the schedule which relates to it, unless and until such schedule is amended by action of the governor upon request of the spending agency. (Budget Bill, Chap. 206, Sec. 3, Laws 1918).

Measured by its adoption in other states the Maryland budget system is not gaining prestige. Utah's budget law closely follows the Maryland provisions except that an amendment of 1921 creates a department of finance and budget under

the governor with budget and supervisory functions like those exercised by the Illinois department of finance. A Nevada law of 1919 limited the legislature to striking out or reducing items in the governor's budget bill, but has since been repealed. The Indiana legislature of 1919 passed a joint resolution proposing a constitutional amendment modelled after Maryland's budget plan; but the succeeding legislature refused to submit this amendment to popular vote. In New Mexico the voters recently rejected a constitutional amendment restricting the legislature to striking out and reducing items in the executive's appropriation bill. Alabama and West Virginia, with administrative budget boards, follow Maryland's practice governing legislative increase of appropriation bills and passage of supplementary appropriation acts. Montana, also having an administrative budget, imposes in modified form Maryland's restriction upon supplementary appropriations.

II. Virginia and Related Group— Delaware, Oklahoma, South Carolina, Wyoming, North Carolina, Idaho and Florida

Owing to the prevalence of Virginia's budget system in other states its major provisions are abstracted below.⁷

I. The governor is responsible for initiation of the budget.

II. *Preparation and filing of estimates.* Estimates shall be made by all spending agencies to the governor upon official estimate blanks by November 1st of odd numbered years. Estimate blanks furnished by governor shall be uniform and shall clearly designate information desired. Estimates are required in itemized form showing amount needed for each year of ensuing biennial period beginning March 1st.

Auditor of public accounts shall furnish governor by December 1st estimates of general assembly, certified by presiding officer of each house, also estimates of judiciary, as provided by law, both of which shall be itemized in accordance with the governor's budget classification.

Auditor of public accounts shall on November 1st furnish governor with (1) statement of balance to credit of each spending agency at the end of last preceding appropriation year, (2) statement of monthly expenditures and revenues from each

(7) New York Reconstruction Commission's Report, 358-359.

appropriation account during last preceding appropriation year, (3) statement of annual expenditures and revenues from each appropriation account for each of last two appropriation years, (4) complete balance sheet for preceding fiscal year ending September 30th, (5) other statements requested by governor.

III. *Review and revision of estimates.* Governor shall, during November, provide public hearings for review of all estimates.

Governor may require additional information from spending agencies not contained in estimates.

Governor and his assistants by December 1st, biennially, must have completed a careful survey of all spending agencies which shall be a basis for his recommendations.

Governor may revise all estimates except those of the general assembly and the judiciary.

IV. *Preparation of budget.* Governor shall prepare a budget for the biennial period.

V. *Form and contents of budget.* Budget shall contain a complete and itemized plan of all proposed expenditures for each state agency, classified by function, character and object, also estimated revenues and borrowings for each year of the ensuing biennial period. Opposite each item of proposed expenditures the budget shall show in parallel columns the amounts appropriated for each of the last two preceding appropriation years, and the increase or decrease. Accompanying the budget shall be (1) a statement of revenues and expenditures for each of the two preceding appropriation years, (2) a current balance statement, (3) a debt and fund statement, (4) a statement of condition of the treasury at the beginning and end of the two appropriation years covered by the budget, (5) a balance sheet for state at close of last preceding fiscal year ending September 30th, (6) general survey of state's financial and natural resources, with a review of its general economic, industrial and commercial conditions.

VI. *Submission of budget and consolidated appropriation bill to legislature.* The governor shall submit to the presiding officer of each house, within five days after the beginning of the legislative session, printed copies of the budget, also a tentative appropriation bill, clearly itemized and properly classified for each of the ensuing appropriation years.

VII. *Budgetary procedure in legislature.* The standing appropriation committees of the legislature must begin within five days after the budget is submitted to hold joint and open sessions on the budget. This joint committee may require representatives of spending agencies to appear before it and give in-

formation, and it may admit and hear all persons interested in the estimates. Governor, or his representative, and the governor-elect shall have the right to sit at these public hearings and to be heard.

VIII. *Legislative action on consolidated appropriation bill.* General assembly may increase or decrease items in the budget bill.

Further and special appropriations, except in the case of an emergency, can be made only after the budget bill has been finally acted upon.

IX. *Supplementary appropriation bills.* All appropriation bills originating in the legislature must conform to the governor's budget classification.

Besides allowing legislative increase of executive proposals, Virginia's budget law (1918) differs from the Maryland amendment in requiring but one budget for the biennial period; the classification of proposed expenditures by function, character and object; and joint committee hearings on the budget. Nor does the Virginia procedure include lump sum appropriations to organization units, with itemized schedule attached, as provided in Maryland.

Virginia's budget system is followed very closely by the executive budget laws of Delaware (1921), Oklahoma (1919), South Carolina (1919), and Wyoming (1919). North Carolina's budget law of 1919 also resembled Virginia's but was largely nullified by an amendment of 1920 exempting current expenses of the legislative, executive and judicial departments from budgetary control. In Idaho budgetary procedure in the legislature and legislative action on the budget bill are modelled after the Virginia provisions. And Florida, under an administrative budget (1921), accepts the Virginia practice governing the preparation and filing of estimates, form and contents of the budget, budgetary procedure in the legislature, and legislative increase of administrative proposals.

III. Illinois and Related Group—Nebraska, Utah, Ohio, Idaho and Missouri.

According to Cleveland and Buck, the executive budget idea was most fully exemplified in American law and practice

in, 1920 by Illinois.⁸ And W. F. Willoughby, writing in 1918, regarded the powers and duties of the Illinois department of finance, in respect to the preparation and presentation of a budget and collateral matters, as the furthest advance yet made by any government in the United States toward the adoption of a budgetary system.⁹

The Civil Administrative Code of 1917 reorganizing the Illinois statutory departments provides, with reference to the budget:¹⁰

I. The governor who appoints the director of finance is responsible for the initiation of the budget.

II. *Preparation and filing of estimates.* The director of finance shall by September 15th of the even numbered years distribute to all spending agencies, including the elective officers, University of Illinois and judicial department, estimate blanks in such form as he may prescribe. He shall procure information of the revenues and expenditures for the two fiscal years preceding, the appropriations made by the previous legislature, the expenditures therefrom, the encumbrances thereon, amounts unencumbered and unexpended, estimates of the revenues and expenditures for the current fiscal year, and estimates of revenues and amounts needed by the several spending agencies for the succeeding biennium.

All spending agencies shall, not later than November 1st, file with the director of finance their estimate of receipts and expenditures for the succeeding biennium. Such estimates shall be accompanied by written explanations.

III. *Review and revision of estimates.* The director of finance may approve, disapprove or alter the estimates. He may at his discretion make inquiries and investigations. He shall by January 1st submit to the governor in writing his estimates of revenues and appropriations for the next biennium.

IV. *Preparation of budget.* The governor shall submit to the legislature a budget for the biennial period.

V. *Form and contents of budget.* The budget shall contain the amounts recommended by the governor to be appropriated to

(8) Cleveland and Buck, *The Budget and Responsible Government*, Macmillan, 1920, p. 240.

(9) Willoughby, W. F., *Movement for Budgetary Reform in the States*, Appleton, 1918, pp. 49-50.

(10) New York Reconstruction Commission's Report, pp. 328-329.

the several spending agencies, the estimated revenues from taxation and from sources other than taxation, and the estimated amount required to be raised by taxation. Together with the budget, the governor shall transmit the estimates of receipts and expenditures received by the director of finance from the elective officers in the executive and judicial departments and from the University of Illinois.

VI. *Submission of budget and consolidated appropriation bill to legislature.* The governor shall submit to the general assembly the budget not later than four weeks after its organization:

VII. *Expenditure and control of appropriations.* Each department shall, before an appropriation for such department becomes available for expenditure, prepare and submit to the department of finance an estimate of the amount required for each activity to be carried on, and accounts shall be kept and reports rendered showing the expenditures for each such purpose.

Under this code the functions of the department of finance are:¹¹

(1) To prescribe and install a uniform system of bookkeeping, accounting and reporting for the several departments;

(2) To examine into the accuracy and legality of accounts and expenditures of other departments;

(3) To examine and approve or disapprove all bills, vouchers and claims against the other departments;

(4) To prepare a budget for submission to the Governor; and

(5) To formulate plans for better coordination of the departmental work.

The director of finance acts as the financial advisor for the governor and all the departments under his control. Through the director a centralized control of the expenditures made by the agencies responsible to the governor is effected. While the finance department has no direct control over the expenditures made by any non-code department, it is authorized and required to study the entire field of governmental needs in order to prepare the budget.

The actual work of preparing the Illinois state budget is done by a superintendent of budget and his staff under the supervision of the department of finance. Both of these officers

(11) Cleveland and Buck, 243-245.

are appointed by the governor with senate approval for a four year term, beginning on the second Monday in January following the governor's election.

Unlike Maryland and Virginia, Illinois has recognized the necessity of integrating and supervising state administration to facilitate budgetary control. The Civil Administrative Code consolidated over one hundred executive offices, boards and commissions into nine departments with directors appointed by the governor.

In further contrast with these states, Illinois does not require the governor to submit a budget bill or bills to the legislature. Neither does the Code provide for public review of the estimates by the governor, or for appearance of the governor and administrative officers before the legislature to defend the budget estimates. Again, no reference is made to budgetary procedure in the Illinois legislature. The budget can be referred to regular committees or considered by the legislative bodies sitting as a committee of the whole. The general assembly has the power to revise, amend, decrease, increase or disregard the governor's recommendations entirely, subject, however, to his veto.

The Illinois department of finance is the model for budgetary and administrative organs in five other states having an executive budget. In 1919 Nebraska eliminated eight boards and commissions and grouped ten departments with similar functions into six main divisions. The secretary of finance was given powers like those of the Illinois director of finance. Similarly by an act of 1921 Utah created a department of finance and purchase under the governor which is his staff agency in the preparation of the budget, and also has wide supervisory powers over all of the state's administrative agencies. No general administrative reorganization was attempted. The Ohio Administrative Code of 1921 repealed the budget law of 1913 and constituted a department of finance with the usual budget making and supervisory administrative powers. Statutory administrative agencies were reorganized and consolidated into eight departments. Idaho in 1919 replaced forty-six statutory boards, commissions and other administrative offices by nine departments. One of these was a department of finance like

that of Illinois. A law of 1921 establishes a bureau of budget and taxation to assume this department's budgetary duties, investigate the efficiency of state departments, and formulate plans for their better coordination. In Missouri a law of 1921, subject to a referendum in 1922, provides a department of budget under the governor which acts both as a budget-making agency and instrument of general administration.

Washington—having an administrative budget board—consolidated its statutory administrative agencies into ten departments (1921). The director of efficiency is required to prepare the biennial statement prescribed by law as the basis for the state budget; and, together with the director of business control, enjoys powers and duties comparable to a standard department of finance.

IV. Massachusetts

The essential relation between administrative reform and budgetary control is also recognized by Massachusetts. Following administrative surveys by the Economy and Efficiency Commission appointed in 1912, by its successor—the supervisor of administration—created in 1916, and by a joint special committee on finances and budget procedure, 1917, the Massachusetts legislature in 1919 adopted an Administrative Consolidation Act grouping some two hundred executive and administrative agencies into twenty departments—the maximum number fixed by constitutional amendment in 1918. Besides preparing the budget for the governor, the supervisor of administration appointed by the governor and council for a three year term, is empowered to make current efficiency studies of the organization and operation of state departments.

By constitutional amendment and statute, 1918, Massachusetts has established an executive budget system as outlined below:¹²

- I. The governor is responsible for initiation of the budget.
- II. *Preparation and filing of estimates.* All agencies receiving or expending money from the treasury shall by October 15th

(12) New York Reconstruction Commission's Report, 336-337.

annually submit to the supervisor of administration estimates of amounts required for the ensuing fiscal year, with explanations, citations of statutes and other information; also statements showing in detail the amounts appropriated for the current fiscal year. These estimates shall not include requirements for any new or special purposes not authorized by statute. Duplicate copies of the estimates shall be filed with the auditor of the Commonwealth.

Spending agencies asking for the expenditure of state money from any source of revenue, including expenditures to be met by assessments or the issuance of bonds for any purpose not covered by the estimates mentioned in Sec. I above, shall by October 15th submit requirements therefor in detail to the supervisor of administration together with such other information as he may require.

The state auditor shall by December 26th prepare and file with the clerk of the house and with the supervisor of administration statements showing in comparative tabulations the estimates filed for all purposes authorized by statutes, including interests, sinking fund and serial bond requirements, the appropriations for the preceding year and expenditures for all state purposes for the three preceding years. He shall also file his estimates for the ordinary and other revenue of the state in comparative tabulations with the actual revenue for the preceding three years, together with a statement of the free and unencumbered cash balance and other resources available for appropriation.

III. *Review and revision of estimates.* The supervisor of administration shall review the estimates and shall make such investigations as are necessary for the preparation of the budget. The governor may call upon the auditor for assistance in the preparation of the budget.

IV. *Preparation of budget.* For the purpose of preparing his budget the governor shall have power to require any spending agency to furnish him with any information that he may deem necessary.

V. *Form and contents of budget.* The budget shall contain a statement of all proposed expenditures of the state for the fiscal year, including those already authorized by law, and of all taxes, revenues, loans and other means by which such expenditures shall be defrayed. The budget shall be arranged in such form as the legislature may by law prescribe, or in default thereof, as the governor shall determine.

The budget shall show separately estimates and recommendations of the governor for: (1) expenses of administration,

operation and maintenance; (2) deficiencies or over-drafts in appropriations of former years; (3) new construction, additions, improvements and other capital outlay; (4) interest on public debt, sinking fund and serial bond requirements; (5) all requests for expenditures for new projects and other undertakings. It shall also include definite recommendations of the governor for financing the expenditures recommended and the relative amounts to be raised from ordinary revenue, direct taxes or loans.

VI. *Submission of budget and consolidated appropriation bill to legislature.* The governor shall recommend to the legislature a budget within three weeks after the session convenes.

The governor shall submit to the legislature such supplemental data with reference to the budget as he may deem expedient, and during the session he may submit supplemental message on recommendations relative to appropriations, revenues or loans.

VII. *Budgetary procedure in legislature.* All appropriations based upon the budget shall be incorporated in a single bill called the "general appropriation bill." The governor may from time to time recommend to the legislature supplementary budgets.

VIII. *Legislative action on consolidated appropriation bill.* The legislature may increase, decrease, add or omit items in the budget. It may provide for its salaries, mileage and expenses and for necessary expenditures in anticipation of appropriations, but before final action on the "general appropriation bill" it shall not enact any other appropriation bill except on recommendation of the governor.

IX. *Supplementary appropriation bills.* After final action on the general appropriation bill or on recommendation of the governor, special appropriation bills may be enacted. Such bills shall provide specific means for defraying the appropriations therein contained.

The governor may disapprove or reduce items or parts of items in any bill appropriating money.

Massachusetts like Illinois does not provide public hearings on the estimates by the governor or executive representation at legislative or committee sessions devoted to the budget bill, as noted in Maryland and Virginia. Unlike Illinois, Massachusetts—as is the case in Maryland and Virginia—requires the governor to submit a consolidated budget bill. Massachusetts and Virginia differ from Illinois and Maryland in prescribing joint legislative committee meetings to consider the budget bill. With reference to legislative increase of items in

the budget bill Massachusetts' practice follows Illinois and Virginia. But the Massachusetts' limitation upon the passage of special appropriation bills resembles the Maryland provisions.

V. *New Jersey and Kansas*

New Jersey paved the way for its executive budget system, created in 1916, by providing for a single appropriation bill and one joint committee on appropriations; improving its methods of accounting and auditing; and integrating more than twenty separate administrative agencies into six major departments with heads appointed by the governor. The main features of New Jersey's budget law are:¹³

I. The governor is held responsible for initiation of the budget.

II. *Preparation and filing of estimates.* Estimates prepared by all spending agencies on prescribed blanks, giving itemized lists and trial balance, and presented to the governor on October 15th. (As amended by chapters 221 and 144, Laws of 1918,) Rules 1 to 8, appended to law, contain a budget classification and prescribe the form of the estimate sheets in detail.

Each estimate must be sworn to by the administrative head or other designated officer of spending agency making the same.

Estimated revenues furnished governor by comptroller and treasurer jointly.

III. *Review and revision of estimates.* Governor shall review all estimates and determine necessity of appropriations.

He may conduct hearings, summon witnesses, and make investigations. For this purpose he is allowed to name two special assistants and to call upon administrative officers.

IV. *Preparation of budget.* Governor shall prepare a summary of the estimates and make recommendations thereon, the total of which shall not exceed the anticipated revenues of the State.

V. *Form and contents of budget.* The budget shall be in the form of a separate message to the legislature, containing a summary of the estimates and reports with recommendations thereon.

Budget message shall be in easily understood form.

VI. *Submission of budget and consolidated appropriation bill to legislature.* Governor shall submit his budget to the legislature on second Tuesday of January.

(13) New York Reconstruction Commission's Report, 344-345.

Budget given such publicity as is deemed wise.

The governor may transmit special messages to the legislature requesting additional appropriations after budget has been submitted.

VII. *Supplementary appropriation bills.* It is the intent of the budget law that there shall be no supplemental, deficiency or incidental bills.

VIII. *Expenditures and control of appropriations.* No money shall be drawn from the state treasury except by the general appropriation act.

Provides for transfers within appropriation of any organization unit by application to the state house commission, composed of the governor, comptroller and treasurer. (As amended by chapter 290, Laws of 1918.)

Governor has the power to investigate the revenues and income of spending agencies, which are not derived directly from the state treasury.

Without substantial administrative reorganization Kansas enacted a budget law in 1917 closely following that of New Jersey. Kansas, however, lacks a single appropriation bill, a joint appropriations committee, an adequate budget staff and a system for the transfer of appropriations.

VI. *Miscellaneous Group—*

Arizona, Colorado, Indiana, Iowa, Minnesota, Mississippi, New Hampshire and New Mexico

There is little new or distinctive in the executive budget laws of Arizona, Colorado, Indiana, Iowa, Minnesota, Mississippi, New Hampshire and New Mexico—states without any substantial measure of administrative consolidation. In general the budget provisions of these states are less comprehensive and effective than those previously considered.

Estimates of expenditures and revenue are made to the governor in all states of this group except Indiana, where estimates go to the state accountant, and New Hampshire where the state treasurer receives them. Only four states—Colorado, Minnesota, Mississippi and New Mexico—specifically authorize the governor to review and revise all estimates, except those of the legislative and judicial departments. The budget is pre-

pared by the governor in all of these states except Indiana and New Hampshire where the state accountant and treasurer, respectively, formulate it for the governor. Apart from Colorado and Indiana no adequate provision is made for assistance to the governor in the preparation of a budget.

In each state the governor submits a budget to the legislature covering all appropriations. But Iowa, Minnesota, Mississippi and New Hampshire do not require the inclusion of revenue proposals. Three states only—Arizona, Colorado and Indiana—prescribe the submission of a budget bill or bills by the governor. In New Hampshire the appropriation committee shall report to the legislature one appropriation bill unless the governor requests the making of appropriations in separate acts. Colorado is alone in giving the governor and administrative officials the right to appear and be heard by the appropriations committees of either house of the legislature.

None of these states limits the legislature's power over the general and special appropriation bills in the manner of Maryland or Virginia. Nor has any state made effective provisions for the speeding up of legislative procedure on appropriation acts.

Minnesota's allotment procedure has attracted some favorable attention. Each department shall immediately upon an appropriation for its support being made, proceed to sub-appropriate or allot the sum so granted for the purposes set forth in the budget. This allotment may be subsequently changed upon report to the auditor who keeps his accounts under the established allotment heads.

Administrative Budget Systems

I. California

California's budgetary system is an outgrowth of the general movement for the improvement of administrative methods in that state. In 1911 there was established the state board of control described as a bureau of general administration and enjoying plenary powers over the business and financial affairs of the Commonwealth. The board is composed of three full-time members appointed by the governor and holding office at his

pleasure. It may examine the books of all spending agencies; audit claims against the state and approve or disapprove them; exercise general supervision over all matters concerning the fiscal and business policies of the state; approve contracts for the purchase of all supplies; and devise, install and supervise a uniform system of accounting and reporting.

Though lacking statutory authority, the board of control has by mutual agreement with the governor and state institutions constituted itself and the comptroller a budget board. Prior to the legislative session all spending agencies of the state file their requests for the biennial period with the board of control on forms prepared by it. These requests are audited and compiled by the board's department of public accounting and then presented to the budget board for its inspection. Then every department, board, commission and institution is represented at the hearings of the budget board to justify every item contained in their requests. After the conclusion of these hearings the budget board trims the estimates to amounts deemed necessary for the operation of each spending agency for the ensuing two year period. This board's final recommendations are based not only on the evidence at its hearings but upon the previous operating expenses as shown by the reports filed with the board of control or ascertained by personal visits of the board members to the state's spending agencies.

By law the state board of control must make its recommendations for appropriations at least thirty days before the meeting of the legislature. These recommendations are transmitted to the comptroller who in turn submits them to the governor and each member-elect of the legislature within ten days of the opening of each regular session. The printed budget recommendations are without supporting details or adequate comparison with previous biennial periods. Since the governor appoints the board of control he usually accepts the budget board's recommendations as his own, thus giving them official sanction and force.

Excepting the general appropriation bill, no bill appropriating money shall contain more than one item and that for one single and certain purpose to be therein expressed.

in Budget 1922
Under the nominal consolidation of its administrative units into seven departments in 1921, California created a department of finance regularizing the procedure of the informal budget board. The work of this department is divided into seven divisions—institutions, budget and accounts, purchases and custody, printing, motor vehicles, capitol building and grounds, and libraries and history. The chiefs of the three divisions first named constitute the governing board of the department of finance; but each division chief is in charge of his own particular division. In this connection Governor Stephens said:¹⁴

“Certain constitutional requirements concerning the Board of Control make it necessary to retain nominally this board, and therefore, it is expressly provided that these three chiefs shall be ex-officio members of the State Board of Control. The reasons for this apparent departure from the principle of individual department control are certain constitutional provisions dealing with the authorization and issue of bonds, in which bond issues the specific functioning of the chairman of a State Board of Control is indispensable. In addition board action is required for the final determination of the state budget, a duty of such great importance and magnitude that in my judgment it would be more easily and equitably performed by a board than by a single individual.”

In other words, a state budget prepared by the chief of the division of budgets and accounts and subject to the final determination of the ex-officio board of control is authorized by the act creating the department of finance.

II. Connecticut

In Connecticut the budget is initiated by a state board of finance. It is composed of three electors appointed by the governor with over-lapping terms of six years, the comptroller and tax commissioner (appointed by the governor) and the treasurer, ex-officio. The appointive members have no responsibility for the conduct of the government and devote little time to their duties for which they receive \$500 per year.

(14) Letter from Department of Research and Service, Security Trust and Savings Bank, Los Angeles, August 25, 1921.

The board of finance holds hearings on and tabulates the estimates of all spending officials, which together with the board's recommendations thereon are printed in a book by the comptroller. Since the governor is not a member of the board and does not always completely control its personnel, as in California, he is virtually eliminated from the framing of budget estimates. No provision is made by law for the form and contents of the budget or submission of the budget and appropriation bills to the legislature.

There is a joint standing committee on appropriations in the Connecticut legislature; but reference of appropriation bills to this committee may be dispensed with by two-thirds vote of each house. For hearings and action on appropriation bills joint meetings of the board of finance and appropriation committee are prescribed.

Finally the board of finance is given power to examine and control the expenditures of departments and institutions.

III. Louisiana

Under a constitutional amendment of 1916, Louisiana's state budget is initiated by a board of state affairs consisting of three members appointed by the governor and confirmed by the senate for overlapping terms of six years.

The board receives, compiles and reviews the estimates of all spending agencies, and obtains additional information through examination, interviews and correspondence. It prepares a formal printed budget containing detailed and comparative estimates of actual revenues and expenditures. This, together with the board's budget recommendations and reasons therefor, is submitted to the legislature. The only participation granted to the governor in framing a financial and work program is that he may have included in the budget statement his opinion concerning the funds that should be granted.

By the budget law of 1916 the board of state affairs is also empowered to investigate (1) duplication of work; (2) central control of institutions; (3) cost of state printing; (4) advisability of central purchasing; (5) other matters pertain-

ing to economy and efficiency. This grant of power recognizes that a true budgetary system involves continuous effort to promote efficiency of administration.

IV. Texas

In Texas the budget is prepared by a state board of control composed of three citizens appointed by the governor with the senate's approval for over-lapping terms of six years, one being appointed every two years.

Each state spending agency must submit itemized estimates for the biennium to the board of control; also an itemized account of expenses for the preceding two years in the form prescribed by the board. Upon receiving the estimates the board investigates and considers them at hearings and obtains pertinent information from every available source.

It is the duty of the board to frame the budget which is printed and mailed to members-elect of the next legislature, to the governor and to heads of spending agencies.

The board of control's jurisdiction is not confined to initiation of the biennial budget. It is organized into divisions of public printing; purchasing; auditing; design, construction and maintenance; estimates and appropriations; and eleemosynary institutions.

In the nine other states having an administrative budget the governor and ex-officio members constitute the budget board.

V. Washington

Washington consolidated its statutory administrative agencies into ten departments in 1921, establishing a director of efficiency to prepare the biennial budget statement. Together with the newly created director of business control he has powers and duties comparable to a standard department of finance.

This budgetary statement is utilized by the state finance committee in making its budget recommendations to the legislature. The governor, state treasurer and state auditor constitute this committee.

VI. *West Virginia*

West Virginia has an administrative budget board consisting of the governor, secretary of state, auditor, treasurer, attorney general, superintendent of schools and commissioner of agriculture (all elective officers), which is responsible for initiation of the budget.

Aside from the substitution of a budget board for the governor, the West Virginia budget amendment is practically identical with that of Maryland. A further variation is that in West Virginia the state board of control makes up the appropriation requests for state institutions submitted to the budget board. The governor appoints the three members of this board for six years with over-lapping terms. They are empowered to manage the charitable institutions of the state and take charge of the financial and business affairs of the educational institutions.

VII. *Alabama*

In Alabama the state budget commission is composed of the governor as chairman, attorney general and state auditor. It has authority to secure the necessary clerical assistance.

The commission prepares a budget on the basis of itemized estimates of needs and revenues submitted by spending agencies in the form prescribed by the commission. The budget contains a complete plan of proposed expenditures and estimated revenues for the ensuing quadrennium. It is transmitted to the legislature by the governor as chairman of the budget commission, together with executive bills for all proposed appropriations clearly itemized and classified.

The house and senate committees in charge of appropriation measures sit in joint public meetings to hear all parties interested in the budget estimates. Members of the budget commission may be present and heard on all matters coming before the committees.

By rule of procedure the legislature will alter the budget bill except to strike out or reduce items, unless by vote of two-thirds of the members elected to both houses, provided that appropriations necessary for the payment of interest or

principal due on public debt will not be reduced or eliminated. This practice approaches that of Maryland.

Until the budget bills have been finally acted upon by the legislature, neither house will consider any other appropriation except an emergency legislative expense. Every supplementary appropriation bill is restricted to a single purpose, and is not valid if the amount added to appropriations authorized by the budget bills produces an excess of expenditures over the quadrennial revenue estimates of the budget.

VIII. Florida

A Florida law of 1921 creates a state budget commission consisting of the governor, comptroller and state treasurer.

Virginia's practice is adopted for the preparation and the filing of estimates, form and contents of the budget, and legislative procedure on the budget. The commission shall provide for public hearings on the estimates and complete a careful survey of all spending agencies. It prepares a biennial budget for submission to the legislature within five days after the beginning of the session.

IX. Montana

In Montana the responsible heads of all state spending agencies submit their estimates to the state board of examiners, composed of the governor, secretary of state and attorney general.

The board passes on the necessity of the appropriations requested and submits to the legislature, ten days after its convening, a printed budget containing:

1. Current balance sheet of state finances;
2. Fund statements;
3. The revenues, expenditures and balances for the preceding biennial period and the estimated revenues and expenditures for the succeeding biennium;
4. Also the amounts which the board of examiners recommend, item for item, with columns, showing the relation between the proposed allowances and similar grants for the preceding period, for each office or department, with explanatory statements from

each office or department, showing their reasons for any requested increase, and statements from the board of examiners giving reasons for their recommendations.

Following Maryland's practice a budget is prepared for each fiscal year, and appropriations are divided into "governmental" and "general". The legislature also acts on special appropriation bills under restrictions similar to those of Maryland.

X. Tennessee

The Tennessee budget commission consists of the governor as chairman, comptroller, treasurer and secretary of state (all elected by the legislature) and the auditor (appointed by the governor). It may provide necessary clerical assistance.

Each agency receiving state moneys, except educational boards and institutions, shall file estimates of its needs and revenues with the commission arranged in the manner prescribed by it. At the same time the governor receives from the comptroller statements covering balances to the credit of these spending agencies; also statements of monthly and annual expenditures and revenues from each appropriation account during the two preceding fiscal years.

The board for the administration of state institutions manages these institutions, formulates their budget requirements and purchases supplies for them. It is made up of the governor, treasurer and general manager of state institutions, but the governor's control of the board is made effective through the fact that the general manager is appointed by the governor and removable by him for cause.

The commission is required to make biennial and field surveys of state agencies, and has authority to secure desired information by examination of witnesses and accounts. It shall hold public hearings on the estimates open to state officers, the governor-elect and members of the legislature; and may revise the estimates according to its judgment.

A tentative budget is prepared by the commission containing comparative summaries showing revenues and expendi-

tures, reasons for increases or decreases, definition of functions, and any suggestions for greater efficiency of service. It also includes the commission's estimates for emergency purposes and is accompanied by the original estimates submitted to the commission. As chairman of the commission the governor submits the budget to the legislature, together with such recommendations for appropriations as he may deem proper.

Legislative committees shall consider the budget in joint public sessions at which all interested parties, including the budget commission, may appear and be heard.

The commission supervises the expenditure of emergency appropriations and the transfer of appropriations within a spending agency.

XI. Michigan

In Michigan the newly created state administrative board (1921) has acquired the powers of the state budget commission. Members of this board are the governor, chairman, the secretary of state, state treasurer, auditor general, state highway commissioner and superintendent of public instruction.

Spending agencies of the state must furnish the board with estimates of their needs and anticipated income for the ensuing biennium, and other financial information necessary to preparation of the budget. The board is authorized to examine the books and records, as well as buildings and offices, of state spending agencies.

Having assembled the estimates the board shall examine and revise them, holding public hearings before final revision at which any executive officer of the state government has a right to be heard. The governor-elect shall be invited to sit with the board at these hearings. He may examine the estimates and make recommendations for their revision.

The governor as chairman must transmit the budget prepared by the board to each house of the legislature ten days after convening of the regular session. This statement shall show the estimated amounts required by all spending units of the state government for each year of the ensuing biennium, together with the percentage increases and decreases from ex-

penditures for the preceding biennium and the first year of the current biennium; an estimate of the state's revenues for the ensuing two year period; the expenditures, including bills due and unpaid, for the three years preceding the current fiscal year; an estimate of the amount needed for emergency purposes, also to pay the interest and principal of the state debt.

XII. Oregon

In 1921 the Oregon state board of control consisting of the governor, secretary of state and state treasurer, was made the budget commission of the state. It is authorized to appoint an executive officer or statistician and employ further assistance for this purpose.

The board prescribes appropriate blanks, forms and statements for uniformly furnishing the estimates; and may hear or require the officers or employes of any agency receiving state funds to appear before it, and give orally or in writing all information or data desired. All agencies spending state funds must furnish the commission with estimates of biennial needs and revenues. By law the board may examine and revise, increase or diminish the estimates of the several spending agencies.

Statements and data filed with the commission, together with its recommendations, are transmitted to the secretary of state. These are compiled and printed by him with the addition of comparative data, estimates of income and amounts appropriated for the current biennium. The governor and members of the legislature receive this printed compilation prior to the opening of the session.

XIII. Kentucky

By a law of 1918 Kentucky established a budget appropriation commission composed of the governor as chairman, state auditor and chairman of the state tax commission.

Every agency requiring or expending money from the state treasury must file its estimates with the commission, classified by (1) salaries, (2) maintenance and operation, (3) supplies, (4) repairs and (5) permanent improvements.

After review of the estimates the commission prepares an appropriation bill for each of the two ensuing years, including recommendations for all spending agencies except the judiciary, legislature and common schools. The budget shall include a summary statement of all estimates; show the source of income of all state agencies; also the expenditures classified under (1) interest charges, (2) salaries, (3) maintenance and operation, (4) permanent improvements, and (5) number of employes. It is transmitted to the legislature together with the budget bills not later than the third Monday after the beginning of the session.

Summary

Owing to the lack of dominant types it is impossible to generalize satisfactorily upon administrative budget systems in the states.

California and Washington are the only states that have attempted administrative reorganization; and they, together with Connecticut, provide for efficiency studies of state administration; Louisiana, Tennessee, Texas and West Virginia have constituted special boards to introduce business methods in the conduct of state institutions.

The governor appoints the budget boards in California, Connecticut, Louisiana and Texas. In Alabama, Florida, Kentucky, Michigan, Montana, Oregon, Tennessee, Washington and West Virginia the budget board is composed of ex-officio members, always including the governor. By complete domination of the board in California, by executive budget bills or recommendations in Alabama, Louisiana and Tennessee, and by control over the administration of state institutions in West Virginia and Tennessee, the governor may wield considerable power over budget procedure in these states.

Special assistance in the preparation of the budget is furnished to the boards of California, Florida, Oregon, Tennessee and Washington. In every state the board apparently has the power to revise the estimates or make recommendations thereon. Eight states specifically require or authorize the budget board to hold hearings on the estimates—California, Connecticut, Flor-

ida, Michigan, Oregon, Tennessee, Texas and West Virginia. The board generally submits its budget to the legislature. However, in Connecticut the comptroller merely prints the board's estimates; and in Oregon the comptroller compiles the board's estimates and prints them with other data for distribution to the governor and legislature. Barring Tennessee, the budget estimates cover the needs of all spending agencies; but they are not accompanied by recommendations for a revenue program.

The budget laws of only four states—Alabama, Florida, Kentucky and West Virginia—require the board to submit budget bills. Aside from Alabama, West Virginia, Florida, previously noted, the legislature is not restricted in its action on appropriation bills or budget estimates submitted by the budget boards. Connecticut is unique in its joint standing committee on appropriations. Alabama, Connecticut and Tennessee permit members of the budget board to be heard at the joint meetings of the legislative appropriations committees. In West Virginia and Florida the governor and representatives of spending agencies may be heard by the legislature in defense of their budget requests.

Administrative-Legislative Budget Systems

I. Wisconsin

The Wisconsin state board of public affairs is the oldest and most interesting example of an administrative-legislative budget board. It is composed of the governor as chairman, secretary of state, president pro tem of the senate, speaker of the house, chairmen of the senate and assembly finance committees, and three members appointed by the governor and confirmed by the senate, subject to removal by the governor. The board employs a secretary and such other help as it deems necessary.

Essential provisions of the Wisconsin budget procedure are outlined below:¹⁵

I. *Preparation and filing of estimates.* The state board of public affairs shall furnish estimate blanks to each public body,

(15) New York Reconstruction Commission's Report, 360-361.

not later than July 1st. Each public body, not later than September 1st, shall present to the board its estimate for the ensuing biennium.

II. *Review and revision of estimates.* The board shall cause the estimates to be compiled forthwith and reviewed through such field examinations, interviews or correspondence as may be necessary to obtain full information. The board as a whole, between November 10th and December 1st, shall consider and review the results of the preliminary examinations, together with the estimates and explanations. The governor-elect shall have the right to attend review meetings, personally or through a representative, and to receive all reports and information sent to members of the board.

III. *Preparation of budget.* The board shall prepare a budget.

IV. *Form and contents of budget.* The budget shall show comparisons of estimates for the ensuing biennium with each year of the current biennium and each of the three years next preceding; the amount of each item recommended; whether the amounts recommended are equal to, above or below the amounts requested and the amounts for the first year of the preceding biennium; reasons for recommended allowances or disallowances; a record of the vote on each recommendation that is not unanimous; and any recommendation which a minority of the board or the governor-elect may wish to have included. The board shall accompany the conclusions or recommendations of all its reports with a summary of the facts upon which its conclusions or findings are based, the names of the members approving the report, and the summary of the investigation pursued to obtain the facts. Three budgets are prepared for each public body; for capital, maintenance and operation.

V. *Submission of budget and consolidated appropriation bill to legislature.* The board shall recommend a budget to the legislature not later than December 15th; and not later than January 1st shall distribute copies of the estimates with its recommendations thereon to the members of the legislature.

VI. *Budgetary procedure in legislature.* The financial committees of the two houses of the legislature act jointly, a procedure similar to that of New Jersey. Usually this joint committee on finance introduces from twelve to twenty regular appropriations bills, separating the grants to individual departments.

VII. *Expenditure and control of appropriations.* The board shall have such supervision of every public body as is necessary to secure uniformity and accuracy of accounts and it may devise uniform systems of accounts and uniform accounting procedure for all such public bodies.

The board shall also investigate duplication of work, inefficiency of the organization and administration, and shall formulate plans for greater coordination and the improvement of administration in general.

Like the California board of control and the Illinois department of finance, the Wisconsin state board of public affairs is both an organ of budgetary control and general administration. But unlike California and Illinois, Wisconsin has adopted the idea of "government by commission" and set its face resolutely against integration of state administration.

"The board form of government, as it is being developed in Wisconsin, has been in the direction of removing from the governor his power and control over the state administration. The members of these boards have in practically all cases overlapping terms which are very much longer than the two year term of the governor. The result is that the governor can never control the boards, because he can not appoint a majority of the members during his short term of office. More than this, all appointments made by the governor must be approved by the senate. Since the legislature, under the Wisconsin plan, is the controlling factor in matters of administration, in so far as control may be exercised at all, and the board of public affairs is the controlling body in budget making, the governor can do nothing more than nominate to office those persons who stand well in the favor of the senate and exert an influence in the preparation of an administrative and financial program for the state.

"In financial matters the governor has very little power. He may concur with or dissent from the proposals of other members of the board of public affairs (all excepting three of which are elective like himself) in preparing budget recommendations which are made to the legislature. Even then the legislature may disregard his recommendations altogether and not even discuss them. He may then send special messages to the legislature, as Governor Philipp did last year (1919), calling attention to the mounting appropriations and urging the legis-

lature to curb its action. Finally he has the power of veto, which, however, under the system of continuing appropriations may amount to little.’’¹⁶

II. North Dakota, South Dakota and Vermont

The state budget board of North Dakota is composed of the governor as chairman, state auditor as secretary, attorney general and chairmen of the senate and house appropriations committees of the preceding legislature. Provision is made for the board’s employment of necessary accountants, clerks and stenographers.

Each even year, not later than October 1, the heads of spending agencies submit estimates of their requirements to the auditor, on blanks prepared by him, with statements and data necessary to explain fully the need and purpose of each request.

These estimates are transmitted by the auditor to the budget board on the third Tuesday in November. The board thereupon examines such estimates, affording opportunity for explanations and public hearings whenever requested or upon its own initiative. If considered advisable, the board or any member of it may visit and investigate any agency requesting an appropriation.

Not later than the tenth day of the session, the budget board submits its estimates for a state budget to the legislature. Such estimates include the board’s reasons for specific recommendations covering maintenance of the state government; the requirements for interest and sinking fund charges upon the basis of estimates furnished by the auditor; an estimate of the state’s revenues; and a statement of unexpended balances in appropriation accounts with recommendations for their disposition.

“The South Dakota (budget) act is almost a literal copy of that of North Dakota, and the Vermont act, though differently worded, is based upon essentially the same principles. All three acts provide for the formulation of a budget by a permanent body, known as a State Budget Board in the case of the two

(16) Cleveland and Buck, p. 256.

Dakotas, and a Committee on Budget in the case of Vermont, composed of the chairmen of the finance committees of the two houses, the Governor and certain administrative officials. These bodies have adequate power to secure from administrative services reports, financial statements and estimates in the form desired by them and to employ technical and other assistance needed by them for the performance of their work.

“It will be remarked that in all four of these cases the Governor is a member and the chairman of the board or committee. Though the principle of having the budget represent a financial and work program emanating from a responsible chief executive is not carried into effect by these acts, opportunity nevertheless is given to the governor through his position on this body to bring forward and press his own administrative and work program. The creation of these bodies is also of significance as representing the effort to bring the legislative and executive branches of the government into closer working relations with one another than has been the case in the past.”¹⁷ Certain members of the budget board sit in the legislature and are always on hand to defend and explain their recommendations.

Under the law the Vermont budget committee like the Wisconsin state board of public affairs can function as a permanent commission on economy and efficiency. It is also authorized to make provision for emergencies, all emergency grants being reported to the auditor and included in the budget for the next biennial fiscal period. The provision for a single consolidated appropriation act makes it possible for officials of the Vermont government and the public generally to determine readily what appropriations have been made.

III. Maine

There is nothing new or distinctive in the present budget law of Maine, which follows the informal procedure instituted by Governor Milliken in 1917.

(17) Willoughby, pp. 180-181.

IV. North Carolina and Georgia

Apart from its establishment of a budget commission the North Carolina budget law closely follows that of Virginia. However, North Carolina's budgetary procedure will not be detailed, since it has been largely nullified by an amendment of 1921 exempting current expenses of the legislative, executive and judicial departments from budgetary control. And owing to its scant provisions, examination of the Georgia budget law is unnecessary and fruitless.

V. New York

Superimposed on New York's legislative budget system, established in 1916, is the board of estimate and control created in 1921 by an amendment to the state finance law. This board is made the central agency in the modified budget procedure. It is an ex-officio body consisting of the governor, chairman of the finance committee of the senate, chairman of the ways and means committee of the assembly and the state comptroller. The governor is chairman but the board shall elect a temporary chairman from among its other members to preside in his absence. Deputies or assistants in their regular office force may represent or act for the members of the board at any meeting. The board may also employ experts and other assistants who shall be exempt from the provisions of the civil service law "because of the confidential character of their work."

Annually, on or before a date to be fixed by the board of estimate and control, there shall be filed with the board and legislative budget committee by each state officer, board or commission, head of department and proper officer of each state institution, a statement in detail of all moneys for which an appropriation is desired at the ensuing session of the legislature, with the reasons therefor.

On or before December 31, of each year, following its examination and investigation of appropriation requests, the board shall cause to be prepared and filed with the budget secretaries of the finance committee of the senate and the ways and means committee of the assembly a statement, addressed to the

legislature, of the total amount of appropriations desired by each state officer, board, commission, head of department or officer of a state institution; and a tabulated statement of all items of such desired appropriation which are affected by a revision adopted and recommended by the board, together with a statement of such revision, item by item, or of any comprehensive readjustment of all appropriations for any office, department or institution as a substitute for all or any of the items originally requested. With such statement, the board shall submit an estimate of the probable revenues of the state for the ensuing fiscal year. Before completing the annual budget, provided for in the legislative law, the finance committee of the senate and ways and means committee of the assembly shall examine and pass upon the recommendations of the board contained in such tabulated statement.

The state finance law of 1916 is not repealed; so the three budget agencies constituted thereunder—the governor, the joint legislative budget committee and the comptroller—will to a degree parallel the functions of the board of estimate and control.

Members of the senate finance and assembly ways and means committees compose the joint legislative budget committee. In 1919 the senate finance committee had sixteen members and the assembly ways and means committee fifteen. The chairman of each committee appoints a clerk, a stenographer and an accountant to assist the committees which continue during recess of the legislature.

The state spending agencies file their requests with the joint legislative budget committee and the board of estimate and control; also with the state comptroller, by November 15.

A consolidated tabulation of estimated expenditures and income, together with actual appropriations and expenditures during the preceding fiscal year, shall be transmitted by the comptroller to the governor by December 15, and to the legislature on the opening day of the session. The comptroller also presents to the legislature by February 1, of each year a report of expenditures for the last six months of the current fiscal year.

The governor shall annually within one week after the convening of the legislature submit to the houses a statement of the total amount of appropriations desired by each state spending agency, and may make recommendations thereon. He may also accompany this statement with an estimate of the probable revenues of the state.

Budget requests are examined by sub-committees of the joint legislative budget committee; and its clerks are required to receive and tabulate estimates and to compile other budget data for the chairmen. During the summer and fall of each year the budget clerks and chairmen of the finance committees visit all institutions and departments of the state.

In practice the senate finance committee and the assembly ways and means committee act jointly in preparing an annual budget. It shall specify the unit of organization under whose control or supervision moneys appropriated shall be expended and the purpose for which appropriations are made. It shall contain a detailed estimate of the probable revenues of the state and an estimate of the amounts which it shall be necessary to raise by direct taxation. Not later than March 15, the legislative budget committee shall present to their respective houses with the budget a single bill providing the appropriations recommended in the budget.

The appropriation bill when reported, shall be referred to the committee on the whole of the senate and advanced to the order of second reading in the house, and shall thus remain five full legislative days, on each of which it shall be the special order of the day. These legislative sessions are open to the public. And at this time the head of any spending agency may and, upon request by majority vote of either house, shall appear to answer questions pertaining to his appropriation.

While the appropriation bill has this special legislative status, it may be amended by introducing additional items or by increasing, reducing or eliminating the items; but on third reading no amendment except to reduce or eliminate an item shall be in order only by unanimous consent. Scores of special appropriation bills are introduced at this point. All grants of funds are highly and rigidly itemized.

Although responsibility for New York's state budget has been scattered in the past, the joint legislative budget committee—or rather the chairmen and clerks—have controlled the formulation of the budget. Both houses pass the budget practically as submitted to them by the chairmen of the joint committee. The legislature is free to disregard the governor's recommendations, leaving as his only recourse the constitutional right of veto. The chief value of the comptroller's work in preparation of the budget is his estimate of the state's anticipated revenues. He has, however, complete control over authorization of expenditures and reclassification of appropriations.

Establishment of the board of estimate and control will tend to unify responsibility for New York's state budget, but it will also strengthen the standing committee domination of the legislative and administrative branches of the state government in budget making and execution.

Besides passing upon all appropriation requests, the board must estimate the state's revenues and approve schedules of positions and salaries before lump sum appropriations are available for personal service. These requirements impair the individual budget functions of the comptroller who is a member of the board. And the governor's membership on the board will further weaken his recommendations to the legislature covering annual appropriations. At any rate the governor and comptroller will be too busy to function most of the time; so the board will be dominated by the chairmen of the legislative finance committees, who in their dual capacity are also members of the joint legislative budget committee, which must pass on the recommendations of the board before completing the annual legislative budget.

By domination of the board the legislature also gains substantial control over the organization and operation of state administration. The board of estimate and control shall make studies to ascertain all instances of waste and duplication in each department and to determine what department, offices, institutions or functions may be discontinued or transferred in the interest of economy and public welfare. Where plans for improved methods of operation determined upon by the board

do not require legislation to put them into effect, the department affected must carry out the board's recommendations, except in the case of constitutional offices. Where legislation is necessary, the recommendation of the board is to be submitted to the legislature; and if such plan is to be accomplished in whole or in part by the annual appropriation bill, the board shall revise estimates accordingly. Investigations of governmental organization in other states may be made. The board is also made the purchasing and printing agency of the state.

Legislative Budget Systems

With the establishment of the New York board of estimate and control, Arkansas becomes the only state operating by law under a legislative budget system.

The budget law of Arkansas requires the budget to be prepared by a special committee consisting of seven members of the house appointed by the speaker and five members of the senate appointed by the president. Although the law directs the state auditor to gather the biennial estimates and to compile them for this committee, the state comptroller has recently discharged these functions.

Not later than twenty days after its appointment, the budget committee shall prepare and introduce into the general assembly all appropriation bills for the necessary running expenses of the state government including all state institutions. It shall make such recommendations by bill, or otherwise, for changes in the state revenue laws as may be deemed necessary to raise sufficient funds for the state's needs.

Though lacking any legal budgetary procedure, Pennsylvania and Rhode Island in practice have a legislative budget system. In both states it is customary for legislative committees to assemble whatever budget information is desired and to make recommendations to the legislature for appropriations.

Summary of Budget Procedures

Despite the varying provisions previously noted, it is possible to generalize somewhat on budget procedure in the states.

Nearly all of the states require the responsible heads of

state spending agencies to submit detailed written estimates of expenditures and revenues to the budget making authority on a fixed date, usually in November. Except in a few cases the budget laws or amendments do not specify the information to be included in the estimates, thus giving the budget-making authority a free hand in shaping the estimate forms to changing conditions and the classified data desired for the budget statement and accompanying appropriation bills.

As a rule the state auditor or state comptroller is required to prepare and file estimates of revenues with the budget-making authority.

While practically all of the states require the budget-making authority to review the estimates, less than one-half of the states expressly empower this authority to revise the estimates in preparing the budget. "In most cases certain estimates are specifically excluded from the exercise of the power of revision on the part of the budget-making authority. Only in Massachusetts, Mississippi, New York, Tennessee and Vermont is the budget-making authority given the power to revise *all* estimates. In Colorado, New Mexico, Oklahoma, South Carolina and Virginia the budget-making authority may revise all estimates except those of the legislature and the judiciary; in Maryland and West Virginia it may revise all estimates except those of the legislature, the judiciary, and the public schools; in Minnesota it may revise all except the estimates of the legislature, the judiciary, the state university, and the state militia; in Nevada and Utah all except estimates relating to the legislature, public debt obligations, and fixed salaries; and in Wyoming all except the legislative estimates. In Illinois and Nebraska the head of the finance department is given the power to approve, disapprove, or alter the estimates of the code departments before submitting them to the governor for executive consideration and recommendations."¹⁸

Frequently lack of an adequate staff handicaps the budget-making authority, at its discretion or upon request, *may* hold most one-half of the states have made no specific provision for

(18) Buck, A. E., Budget Making, Appleton, 1921, pp. 109-110.

effective assistance in formulation of the budget. Notable exceptions to this practice are found in Arizona, California, Colorado, Florida, Idaho, Illinois, Indiana, Massachusetts, Nebraska, New Jersey, New York, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Utah, Virginia, Washington, Wisconsin and Wyoming.¹ But few of these states supply a staff agency for field investigation of spending agencies.

Under the law budget-making authority in seven states *shall* hold public hearings on the estimates in preparing the budget—Idaho, Maine, Oklahoma, South Carolina, Tennessee, Virginia and Wyoming. In twelve other states the budget-making authority in the review and revision of estimates. All such hearings—Colorado, Connecticut, Kansas, Maryland, New Jersey, New Mexico, Nevada, North Dakota, South Dakota, Utah, Vermont and West Virginia.

Three-fourths of the states require the budget-making authority to submit a budget to the legislature at the beginning of the session or during the first month. The budget documents of a majority of the states do not present a complete plan of proposed expenditures and means of financing them and are, therefore, little more than a compilation of estimates. In some cases the budget statement includes expenditure and revenue figures for the past, current and ensuing fiscal years, a balance sheet of state finances, and a debt statement. Most state budget laws merely authorize the budget-making authority to employ such classification of estimates as seems essential. Estimates of expenditures are variously classified by (1) functions, (2) organization units, (3) objects, (4) character and (5) funds, (2) and (3) being most generally used. Virginia and states having a similar budget procedure prescribe classification of estimates by function, character and objects.

Approximately a dozen of the states provide that the budget-making authority shall prepare an appropriation bill or bills embodying the expenditures proposed in the budget, and submit such bill or bills to the legislature along with the budget. Few states recognize the advantages of a single appropriation act, as do Massachusetts, New Jersey and Virginia. The primary classification of appropriation items is by organization

units, coupled with a classification designating the services, commodities and obligations for which expenditures are to be made.

Legislative procedure on the budget is prescribed by law in only one-half of the states. In Alabama, Maryland, West Virginia and Utah the legislature is without power to increase proposals of the budget-making authority. Passage of supplementary appropriation acts is narrowly restricted in Maryland, Massachusetts and Montana. Limits are also placed upon the enactment of special appropriation acts in Virginia and the states following its budgetary procedure. Connecticut and Maine are unique in having joint standing committees on appropriations. In New Jersey, New York, Virginia and Wisconsin the appropriation committees do act jointly in practice. Budget statutes seldom guarantee consideration of appropriation bills in the early days of the legislative session.

Recognizing the essential dependence of an effective budget system upon an integrated state government, eight states—California, Idaho, Illinois, Massachusetts, Nebraska, New Jersey, Ohio and Washington—have effected substantial administrative consolidation in the interest of economy and efficiency. And eight other states—Connecticut, Louisiana, New York, Tennessee, Texas, Vermont, West Virginia and Wisconsin—have created special boards or committees designed to introduce business methods in state administration and institutions.

CHAPTER III

OPERATION OF STATE BUDGET SYSTEMS

Executive Budgets .

In 1918 the Massachusetts Commission to Compile Information and Data for the Use of the Constitutional Convention summarized the operating results of budget laws in twenty-four states as follows:¹

(1) Bulletins for the Massachusetts Constitutional Convention, 1917-1918, vol. I, 83.

(1) "The Legislature is provided with more complete information as to the needs and resources of the state; (2) 'log-rolling' has been reduced; (3) greater control over and responsibility for expenditures is made possible; (4) improved accounting methods have accompanied the introduction of a budget system; and (5) the finances of the State in general are conducted on a more business-like basis."

Contrasting with this broad endorsement is the critical appraisal of state budget systems by a competent observer writing in the *National Municipal Review*, 1921:²

"A large majority of the states are no better off from the standpoint of financial planning and control than they were before they provided for the establishment of a budget system.

"The many reasons why state budget systems are not working more satisfactorily may be summed up in four phrases: (1) Inertia of state officials; (2) shifting of responsibility in budget planning; (3) political squabbles and deadlocks; and (4) obsolete machinery and antiquated methods of state government. From first to last these stand in the order of increasing importance.

"While some legal provisions are necessary for the establishment of a permanent budget system, the budget law is not everything. It does not work automatically; it is merely the legal authorization to use scientific planning in financing and conducting the work of the state government. Willingness and enterprise on the part of the public officials and properly organized governmental machinery are necessary to carry it into operation. Given these conditions a state may have a satisfactory budget system without a budget law."

It is possible to check these estimates of budget progress against evidence gathered from the individual states.

Maryland

Ex-Governor Harrington believes the Maryland Budget amendment is working very well:³

(2) Buck, A. E., "State Budget Progress," *National Municipal Review*, November, 1921, p. 568.

(3) Letter from Hon. Emerson C. Harrington, Cambridge, November 10, 1921.

"The only criticism that I have of the budget bill is that there is not specifically in the budget bill law itself provisions giving the Governor sufficient help in the preparation of the budget, but this is remedied in Maryland by the fact that the Governor has a contingent fund amply sufficient for all such purposes. The principal criticism, however, I make of the budget is not a defect in the budget law itself, but in the practical work under it. My experience was that the Finance Committees of the two bodies did not, nor did the members of the Legislature themselves, give sufficient attention to the budget bill as a whole, or to the details thereof, but would content themselves in taking some little item here and there to which someone might make special objection, instead of taking up the budget bill as a whole from beginning to end of the departments and reviewing the action of the Governor and the needs of the departments as carefully as the Governor had himself, and eliminating whatever items in their judgment they believed needed correction. This, however, is not a question of a defect of the law but a defect of practical administration."

The president of the Maryland senate declares:⁴

"Maryland's Budget System has been a great success. The present system gives adequate financial information to the Legislature as the Executive submits a statement along with the budget.

"Personally I am opposed to the restriction of the Legislature's power to increase items in the appropriation bill. In actual practice the way it works out the Governor is the appropriating power, the Legislature simply ratifies his budget, of course the General Assembly has the power to reduce but it rarely ever does. The Executive sends down his budget and after much talk and looking over it is ratified because it is generally felt that any tampering with the budget itself will endanger the Governor's program, etc., etc.

"The present system practically destroys the Legislative power of making appropriations. And again some provision should be made for the first year of the term of the Governor. He is inaugurated about one week after the General Assembly has convened and thirty days after is required to send in his budget and estimate of receipts etc. To a new man this is a gigantic task.

"I am in favor of a non-partisan budget officer whose duty it shall be to have prepared at all times estimates of the receipts and disbursements of the State, whose term of office shall not

(4) Letter from Hon. William I. Norris, November 1, 1921.

expire at the end of each administration but one year thereafter, or in between the meeting of the General Assembly. His duty should be to submit to the Governor and the General Assembly all data and information as to the financial affairs of the State. The Governor should then make up his budget and the General Assembly act on the same with the power to decrease or increase as it may deem wise."

A former speaker of the Maryland house of delegates reports:⁵

"When the budget is being prepared by the Executive he is largely guided by estimates furnished him by the heads of departments or institutions, as the case may be. After the Governor has gone into this matter and prepared his budget, it is then submitted to the Legislature, who have the authority to decrease but not to increase the items in the appropriation bill. If the Legislature desires to (and it usually does), it holds hearings at which various parts of the budget submitted by the Governor are examined into, information being furnished as desired by the heads of the various departments. So you see that the Legislature may make such inquiries as they desire in order to fortify themselves upon the wisdom of passing on the various items contained in the budget. They can keep the Governor from being too extravagant, but, they are themselves barred to extravagance, in that they can not increase the executive's recommendation, each being a check upon the other.

"As to the effect upon the total annual costs of said government, there is absolutely no doubt as to its worth, for it has saved the State of Maryland thousands and thousands of dollars of wasted money. The costs of maintaining our House of Representatives since the budget law has been in effect has been from twenty to forty thousand dollars less per session than before the budget law came into effect. This is true largely with other departments. Since we have the budget law in Maryland, even with high prices, we have succeeded in reducing state taxes a little.

"As to the effect upon the actual administration of the State government, it is good. It is the difference between a man spending money without reckoning his income on the one hand, and on the other, of first reckoning his income and making the best disposition of his income to cover his needs.

(5) Letter from Hon. M. E. Tydings, Havre de Grace, November 5, 1921.

"I am sure that the people of Maryland generally regard it as wise and constructive legislation, and that they will not willingly go back to any other system for the appropriation of public moneys."

To a prominent Baltimore banker the financial information made available by the Maryland budget to the legislature seems full and adequate.⁶ He continues:

"The restriction of the legislative power to increase items is vital. You will probably realize that the form adopted by our Budget Commission was somewhat new. While the Legislature was prevented from increasing any item in the budget, it was permitted *after the budget was passed*, to introduce bills providing for items not in the budget and I believe for increased items, *provided* the bill carried with it a levy for the purpose on the general tax rate. This had the effect of bringing into broad daylight every item of expenditure not provided for in the budget and emphasized the fact in the tax-payers' minds, not only that it was an expenditure not approved of by the Governor, but the people of the whole State were being taxed for the purpose of the bill. The result has been, I believe, that practically no such bills have been passed by the Legislature.

"It is impossible to measure the saving in cost of State government. The direct saving has been very large but the indirect saving has been even greater. For years before the Budget Act became law, local bills were introduced for work throughout the counties of the State, such as a bridge in X county, an armory in Y county, etc., which resulted in log-rolling and the inclusion of a great many items of this character in the omnibus bill.

"Unless such items now appear in the Governor's budget, the special act at once draws attention of the people of the State to the fact that a bridge in X county or an armory in Y county is going to be paid for by the taxpayers of every county of the State. These local bills, formerly so expensive to the State, are now dead letters."

The general secretary of the Baltimore Merchants and Manufacturers Association testifies:⁷

"The impression here among those who have observed the operation of the Budget System is that it has been a marked success.

(6) Letter from B. Howell Griswold, Jr., October 31, 1921.

(7) Letter from Secretary A. S. Goldsborough, November 10, 1921.

Of course, the matter has not been on the statute books sufficiently long yet for it to demonstrate the measure of its value. The experience, so far, seems to be satisfying to those who have watched the workings of the law in the matter of providing for the Legislature an adequacy of financial information. No criticisms have been made of the law at this point.

"There is a very definite feeling among all elements in our State that the budget system would lose 75% of its real service to the taxpayer if it failed to carry the restriction which prevents the Legislature from increasing appropriations. That limitation, as a matter of fact, is one of the most efficacious points in the whole law. I am rather inclined to believe that the public would fight most strenuously against any change at this point. Our experience has been that this restriction has been of value in the actual administration of departments, because it has checked up any possibility of departments submitting one basis of estimates, and then, on the quiet, trying to find help in the Legislature to have the appropriation for such department increased.

"We believe from our observation that the Budget System has been one of the most stimulating influences in causing the present governor to pay so much attention to the administrative machinery of the State. I believe that the workings of the Budget and the disclosures it made in the matter of administrative cost are the real explanation of the Governor's recent campaign to bring about the complete reorganization of our State Administrative System. As a matter of fact, his program of reorganization was made an issue in the election campaign just closed, and resulted in an overwhelming triumph of his policies.

"We find it somewhat difficult to make a comparison in dollars and cents savings under the Budget System, because our system has come into vogue since the period of the high cost of everything, and, as a consequence, we have no like conditions without the budget to compare with the effect that the budget itself produced. There is a moral conviction, however, that but for the budget our general expenditures would have been heavier. The only lines of criticism that we hear directed against the budget is the fact that the construction and submission of a Budget Bill apparently so completely covers the financial situation of the State that the legislature is pre-disposed to treat it in a perfunctory rather than in an investigatory way. This, however, is an indirect compliment to the Budget System, rather than a criticism, because it evidences the fact that the Legislature considers the Budget so sound as well as comprehensive, that it would be senseless to engage in petty attacks. Everybody feels, however, that if there was any real weakness in the budget

appropriations that it would be very certain to evoke a violent outbreak on the part of discontented members of the Legislature."

Certain defects in Maryland's finance organization have been revealed by an efficiency survey of the state administration:⁸

"(1) There is no official of the state now recognized as being responsible to the Governor for the advice and assistance needed on all problems of finance and financial control. It is believed that adequate study of all problems of finance and the development of a system of financial administration meeting the requirements of centralized administration is almost impossible so long as the Governor is not assisted by a full time general financial official.

"(2) There is no office responsible for control and enforcement of the budget and estimating system and for securing the information needed to compile the budget and review the estimates of departments.

"(3) The independent accounting and auditing office under the Comptroller is not given the complete powers and authority to direct all work of review and audit needed to permit the development of its full influence and usefulness."

Utah

No comment is available upon the Utah budget law originally modelled after that of Maryland but recently amended to provide a department of finance and budget as in Illinois.

Nevada

Resembling Maryland's practice except in freedom of the legislature to increase budget items, the Nevada budget law has found favor in certain quarters. Governor E. D. Boyle declares:⁹

"The result of the Budget in Nevada was the reduction of the state expenditures for the 1921-1922 biennium some 18 per cent below the expenditures for the preceding biennium.

(8) Report in re The Organization and Administration of the State Government of Maryland, Pt. III, Griffenhagen and Associates, April, 1921, p. 59.

(9) Letter from Governor E. D. Boyle, June 13, 1921.

"The only departure from executive budget practice here was provided in a plan whereby the Ways and Means Committees of the two Houses were present at the general budget hearings. These committees were asked to participate in the discussion, to counsel with the Governor and to treat the whole proposition of preparing the document as a cooperative enterprise.

"I did this in the belief that better results would be obtained thereby, and also because of the fact that the right of the legislature to initiate appropriations could not be questioned under the Nevada constitution."

Counsel for the Southern Pacific Railroad thus characterizes the Nevada Budget System:¹⁰

"It gives to legislative appropriations an intelligent direction and its immediate tendency is toward economy. It has operated here to put an end to the old system of log-rolling in appropriations. In addition to this it has uniformly required care in the expenditure of appropriations to each of the various departments of the government. It has operated to the advantage of the people in general through a reduction in taxation for state and county purposes—. I do not believe anyone in Nevada would think of returning to the old system."

Virginia

In Virginia the governor designated an advisory board of two senators and three representatives of the legislature to assist him in the preparation of the first budget. His purpose was (1) to establish a closer cooperation with the general assembly in the administration of the budget law; (2) to avail himself of the experience of men of long training in the legislature in the handling of appropriations, and (3) to provide an opportunity for representatives of each house of the general assembly to familiarize themselves thoroughly with the budget estimates. Prior to preparation of the estimates the governor also employed a trained economist, a statistician and experts from the Institute for Public Service of New York and the Detroit Bureau of Government Research to make administrative surveys of every major state department and institution involving 117 separate reports and 22 special studies. A scientific basis

(10) Letter from Samuel W. Telford, Reno, September 15, 1921.

was thus laid for administrative reorganization and introduction of business methods in state government.¹¹

Despite the handicap of a decentralized state administration, the Virginia budget system has achieved substantial success. A statement by the chairman of the committee on appropriations of the Virginia house of delegates, 1920, reads:¹²

“With the approval of Governor Davis of House Bill No. 318 on March 10, 1920, making appropriations for the next two years amounting to a total of \$22,496,000, Virginia’s first budget became a reality. While the appropriation bill as passed by the General Assembly exceeds the Governor’s original budget recommendations by \$352,000, it nevertheless is within the estimated revenues of the State for the next two years—according to the Auditor of Public Accounts—by \$343,000. Never before in the history of the State has an appropriation bill been framed, considered and passed with the same degree of intelligent interest, and with as much detailed information at the command of the individual members of the General Assembly, as was this first bill under our budget system.

“Providing a clear increase of \$1,000,000 for the public schools of the State payable direct out of the State treasury, instead of having to increase taxes to provide for our school needs—which means a saving to the taxpayers of the Commonwealth for the next two years of the equivalent of a six cent increase in the general property tax; and carrying liberal increases in appropriations for pensions, roads, agriculture, all the educational institutions, for the State hospitals, and for almost every department of the State government, including increased salaries for nearly every State officer and employe, the budget makes ample provision for the efficient conduct of the State government for the next two years at a saving of more than \$3,000,000 as compared with the estimates of the departments and institutions filed with the Governor in November.

“As chairman of the appropriation committee of the House of Delegates, I am in full sympathy with the budget system, and am convinced that it will do more to place the State’s affairs on a business basis than any other single piece of legislation that has ever been enacted in Virginia. I am thoroughly convinced, now that we have fully worked out the procedure under the budget

(11) Commonwealth of Virginia, Budget, 1920-1922, XIII.

(12) Statement of Honorable J. Sinclair Brown, Roanoke County, 1920.

system, that the appropriation act can be disposed of from two to three weeks earlier at the next session than was the case at this session."

The secretary of the Roanoke Association of Commerce remarks, "that for the first time in the history of the State, stock has been taken and we know exactly what it is costing to run each department. If the budget served no other purpose than that of an educational nature, we believe it would still be worthwhile."¹³

South Carolina

In a special report upon South Carolina's budget system, dated October 15, 1920, Griffenhagen and Associates, Ltd., efficiency engineers and accountants of Chicago, found:¹⁴

"South Carolina is far in advance of most states in its acceptance of the budget idea and the state of development to which it has been brought by its budget procedure."

Governor Cooper in presenting the 1921 budget to the South Carolina legislature declared:¹⁵

"While the budget system has been in operation only one year, the fiscal year 1920 has been closed with the result of an unusually satisfactory condition to the treasury. The 1921 budget does not contain a single request for a deficiency appropriation, whereas last year the Legislature was called upon to appropriate for deficiencies in a sum exceeding one-fourth of a million dollars."

The South Carolina budget law provides that the chairman of the house ways and means committee and of the senate finance committee shall sit with the governor at the public hearings on the estimates; but the governor bears complete responsibility for the budget submitted to the legislature. Effective cooperation between the legislative leaders and the governor, together with the constant employment of experts to reconstruct

(13) Letter from Secretary John Wood, June 13, 1921.

(14) The South Carolina State Budget, 1921, p. 4.

(15) Ibid.

the state's accounting methods, are making for steady improvement in South Carolina's budgetary system patterned after that of Virginia.

Oklahoma

The Oklahoma budget law, copied from Virginia, has not worked well. Partisan wrangles in 1921 between a Democratic governor and the legislature with a Democratic senate and a Republican house created a deadlock on appropriations, temporarily broken to pass a few deficiency bills.¹⁶

A survey of Oklahoma's financial system, issued by the State University's Bureau of Municipal Research, summarizes existing defects in Oklahoma's budget procedure:¹⁷

"To be truly effective the law should forbid the Legislature from considering, except by extraordinary vote, any appropriation that has not been submitted through the governor. This, however, would necessitate a constitutional amendment, since, as noted above, the Legislature, when not specifically restricted by the constitution, has power over all rightful subjects of legislation, and may also override the Governor's veto by a two-thirds vote.

"Another stumbling block in the road to a true executive budget is the independence of the state administrative departments. Since they are not responsible to the Governor, but for the most part derive their authority from the same source as he—the Constitution and the people—they are to a large extent independent of him in financial planning, and even were he given the final work in making financial plans, the carrying out of these plans would still be in the hands of independent officials.

"Another defect of the present system is that under it the out-going Governor prepares the financial plans for the first two and one-half years of his successor's term.

"Still another stumbling block in the road to a really responsible executive budget is the existing lack of provision for a 'showdown' in case of a deadlock between the Governor and the Legislature over the financial plans, as presented in the budget.

(16) Buck, "State Budget Progress," p. 573.

(17) Blachly, F. E., *The Financial System of the State of Oklahoma*, University of Oklahoma Bulletin, Studies in Government and Administration, No. 3, January, 1921, pp. 23-24.

"The Oklahoma System should be so amended as to provide for the submission by the Governor, in connection with his plans for expenditures, of copies of tentative bills for any changes in the revenue laws that he may deem essential to that plan, and for the consideration of these bills by the budget committee.

"The preparation of the state budget this year has been seriously hampered by the failure of the last Legislature to provide the funds necessary for the employment of an adequate staff to assist the Governor in making the survey of state departments and institutions which is provided for by section 6 of the budget act. This defect is not inherent in the provisions of the act itself, but is entirely due to lack of proper financial support."

Illinois

In 1921 Governor Small of Illinois surrendered the initiative in state financial planning to the legislature. One month after taking office he submitted to the legislature the budget prepared by his predecessor, Governor Lowden, but refused to accept any responsibility for the recommendations contained therein.¹⁸ The result was that legislative appropriations in 1921 of \$81,488,267 exceeded the budget estimates by fourteen million dollars, in contrast with appropriations in 1919 of \$62,096,009, exceeding the estimates by less than nine million dollars. And the governor at the last minute negatively influenced the state's financial and work program by vetoing appropriations totaling \$6,900,492, as against \$340,022 vetoed in 1919.

According to the general secretary of the Illinois Chamber of Commerce,¹⁹ "The business men of Illinois look upon Governor Lowden's administration as one of the most successful the state has ever enjoyed, due fundamentally to his organizing the state on a more business-like basis than it had ever been run before.

"His installation of the budget system is one that has met with the heartiest approval of everyone.... We, here in Illinois, believe that the budget system is just as essential in running a state as it is in running a business."

(18) Buck, "State Budget Progress," 572.

(19) Letter from Secretary Harvey T. Hill, Chicago, June 8, 1921.

Professor John A. Fairlie, formerly director of the Illinois Economy and Efficiency Commission, states:²⁰

"The Illinois budget system has worked well within the limits of the administrative reorganization. This was most clearly demonstrated in 1919. The state expenditures for the two preceding years for the administrative code departments had been kept substantially within the appropriations, except for food and other supplies for the charitable and correctional institutions, where the general increase of prices could not be avoided. Expenditure for the elective offices not under the administrative code showed—even more than the usual excess over appropriations for the same two years.

"Appropriations made in 1919 for the administrative code departments were in accordance with the Governor's budget; but appropriations for elective offices not covered by the code had, as usual, a considerable increase over the original budget estimates.

"In the present year, the making of the budget was affected by the change of administration; and illustrates the difficulty involved in having a retiring official prepare a budget for his successor. The budget was prepared under Governor Lowden; and was submitted by the new Governor (Small) without recommendation, as he had not had time to go over it in detail in the month between his inauguration and the date set for presenting the budget.

"The legislative appropriations made this year were largely in excess of the budget estimates, a considerable part of this again being for offices and institutions not covered by the administrative code. Probably a good part of this increase would have been made in any case, on account of the higher scale of prices. The Governor exercised his power of vetoing items more freely than before and thus reduced the appropriations materially."

Nebraska

Nebraska's budget practice generally follows that of Illinois but differs from it in certain respects. By a constitutional amendment of 1920 the governor of Nebraska shall present at the beginning of each legislative session a complete itemized budget covering all state activities for the ensuing biennium. No appropriations shall be made in excess of the recommenda-

(20) Letter from Prof. John A. Fairlie, Urbana, August 10, 1921.

tions contained is such budget unless by a three-fifths vote of each house of the legislature, and such excess so approved by a three-fifths vote shall not be subject to executive veto.²¹ Other deviations from Illinois' practice are:²²

(1) The out-going governor shall deliver the budget to the legislature previous to the close of his term, and the incoming governor shall have fifteen days in which to review such budget and may send to the legislature a supplementary budget message suggesting any changes which he deems wise; and

(2) The governor shall submit to the legislature with his budget, copies of a tentative bill for all proposed appropriations of the budget clearly itemized and properly classified.

Governor McKelvie reports that under the Nebraska administrative code of 1919 "each spending agency was required to submit periodical estimates of expenditures to the Department of Finance before expenditures were made. Thus, such a check was obtained over expenditures that we were able to run these departments without any deficiency whatever during the bien-nium, and a surplus of \$188,000 remained unexpended. This is the first time in many years that all of these departments have been run without a deficiency."²³

Massachusetts

Owing to effective cooperation between the legislature and executive the Massachusetts budget system is being steadily improved and regarded with increasing favor.

By mutual agreement in 1920, for the first time, the senate and house ways and means committees meeting jointly heard and revised the governor's budget. The joint committee found itself in a difficult position for the governor's revenue program not only contained some rather questionable recommendations but fell short of his expenditure program by \$1,300,000. In order to guard against executive evasion of responsibility for the budget, the committee requested that he "submit to the

(21) Constitution of Nebraska as amended 1919-1920, Article IV, sec. 7.

(22) Nebraska Session Laws, H. R. No. 492, 1921.

(23) Letter from Governor S. R. McKelvie, August 5, 1921.

General Assembly a supplementary budget containing a statement of 'all taxes, revenue, loans and other means by which the expenditures recommended in his original budget message shall be defrayed.' '' The governor acceded to this request. Instead of recommending the misappropriation of capital funds he urged the legislature to increase the direct state tax from \$12,000,000 to \$14,000,000, dropped the indefinite special taxes, and substituted additional levies on inheritance and corporate incomes.²⁴

In practice the governor is now looked to for leadership in matters of appropriation, and harmonious relations with the legislature have prevailed to such an extent that most of the troublesome financial questions are settled before reaching the appropriation stage. Hence the governor has not exercised his constitutional right of vetoing items of appropriation.²⁵

Honorable Benjamin Loring Young, speaker of the house in 1921, authorizes the following statement of striking results already obtained under the Massachusetts budget system:

"It has imposed upon the Governor financial responsibility and leadership. Before its adoption, the Governor had no control of appropriations except through the exercise of the veto power. He had no real authority to make a definite financial plan for the fiscal year and submit it to the Legislature. All the various state departments submitted separate estimates to the Legislature, and there was no executive revision or study of these estimates. The entire burden of comparison, study and revision was thrown upon a legislative committee which had neither time, facilities nor expert knowledge for the task. Estimates were considered throughout the entire session and in 1915, 136 separate appropriation bills were passed by the Legislature. It is obvious that under such a system absolute fairness was almost impossible to achieve. Furthermore, there was no real attempt by anybody to balance expenditures and revenues in advance. Appropriations were made as seemed necessary. They were added up at the end of the session. The total figure was compared with the estimated revenue of the state under existing law, and the amount of the deficit levied on the cities and towns as a so-called state tax. This state tax is the historic method of

(24) Gulick, L. H., *State Service*, July—August, 1920, p. 571.

(25) Letter from Supervisor of State Administration, December 15, 1921.

finance for Massachusetts. Under the budget system, the whole plan is made in advance, all estimates must go through the office of the Supervisor of Administration which has an expert staff agency created to advise the Governor on budget matters.

"The budget itself is filed in January by the Governor. It shows the requests of all the various departments and also the personal responsible recommendation of the Governor on every item together with the Governor's plan for the financing of all expenditures for the current year. This estimate does not insure perfection but it has at least brought order out of financial chaos.

"The budget system makes unpopular the old pastime of 'passing the buck'. Frequently, one reads in a Governor's message a beautiful plan for old age pensions and many other social improvements without a word as to their cost. The same message usually closes with an appeal to the legislature for strict economy and a reduction of state expenses. When every expenditure recommended by the Governor must be included in his budget, he is not likely to recommend any expenditure which can not be properly and wisely financed.

"A reduction in the number of appropriation bills from 136 in 1915 to 2 in 1921 has meant a saving of time and money. The general appropriation bill of today gives one an accurate picture of the entire administration of the state.

"The budget system will curtail although it may not entirely remove the greatest evil of American legislation; namely the 'pork barrel'. Many persons regard that Legislator as most efficient who can get the largest sum out of the state treasury for local improvements—highways, harbors, buildings, everything that will ornament and enrich a particular locality. The Governor views expenditures from the point of view of the whole state, not the narrow aspect of one district. He is not likely to include such expenses in his budget.

"Our budget law provides that special appropriation bills may be enacted by the Legislature after final action on the budget, but that 'such bills shall provide the specific means for defraying the appropriations therein contained.' The man who wants \$100,000 for a public building at Bingeville Corners must tell the people exactly where the money is coming from because the Governor did not put it in the budget. This is calculated to take a large measure of the joy out of life.

"The budget itself can not be said to reduce indebtedness, but it tends in that direction. It brings the glare of publicity upon state finance. In Massachusetts the net direct debt of the state which excludes the indebtedness for Metropolitan im-

improvements in and near Boston was in 1917, \$33,658,000. Massachusetts paid her soldiers a \$100 bonus at a total expense of nearly \$20,000,000. A considerable amount of this still shows in the debt column and yet today the net direct debt of the state is only \$35,000,000. The budget has forced the adoption of a pay-as-you-go policy.

"Let me suggest two essentials for the making of a budget system which will be really a success. The first relates to legislative procedure; the second, to financial control after appropriations are made.

"I regard it as essential that all financial legislation be referred to one committee which should be a joint committee for representing both branches of the state legislature. Absolute financial responsibility must be pinned on someone. In the executive branch, place it on the Governor because he is the chief civil officer of the state whose responsibility and leadership should be increased until he becomes a real business manager of the state. In the Legislature, place the responsibility for study and authorizing the Governor's financial program on a committee of picked men. Once get a good budget system, and unwise appropriation of money becomes very difficult. Supplement your budget system with sound accounting. It is much harder to get the Legislature to appropriate money unwisely than it is to get a public official or department to spend that money unwisely or to allow the material and other supplies which may be bought with that money to be extravagantly or dishonestly used."

Business men of Massachusetts freely endorse the state's executive budget system. The secretary of the Massachusetts State Chamber of Commerce writes:²⁶

"Certainly it has seemed to every one that this year the budget which has been established for three years has commenced to demonstrate its worth in a practical fashion. The results show that it provides an early and correct knowledge of what the state taxes must be for the forthcoming year.

"This is quite a contrast to the old method of departmental appropriations under which information as to the amount of the state tax could only be ascertained by the Legislature toward the end of the Legislative session and so far as the public was concerned was not likely to be wholly understood until the adjournment of the Legislature.

(26) Letter from Secretary E. G. Stacy, Boston, June 6, 1921.

"A second very great advantage is that the Governor is enabled to have before him many weeks prior to the opening of the General Court *a related scheme of* state financing for his study and approval which has been based upon very careful examination and appropriation by each state department in October covering its needs for the ensuing calendar year. This makes of the Governor a real chief executive in charge of all of the finances of the State. Furthermore, it provides the Legislature at the out-set of its session with a comprehensive analysis of the state's business affairs.

"The result has been evidenced in the fact that the Legislature has steadily become more conservative and during the session which has just ended affected remarkable economies and turned down practically all legislation involving new appropriations where the work could not be expected to be largely self-supporting from the fees.

"It was anticipated that the state tax might have to be increased two million dollars but because of the Governor's economy program and the intelligent interest which the public was able to take in the state's financial affairs the Legislature was able to reduce its appropriations and keep within the old state tax which is \$14,000,000.

"Another very marked influence of the state budget is the result it is having upon the practice formerly indulged in of voting special appropriations for local road work which always savored of 'pork barrel' methods. During the recent session local road bills were all defeated and appropriations kept down accordingly."

New Jersey

The secretary of the New Jersey State Chamber of Commerce finds that the state's executive budget has seven advantages over the previous legislative budget:²⁷

"(1) More careful consideration of the requests by the various departments for their requirements for the coming year.

"(2) An opportunity to compare the requirements of the various departments to get their relation to the whole question of appropriation.

"(3) The necessity of the departments developing their entire program which has materially reduced the supplemental requests.

(27) Letter from Secretary E. M. Barradale, Newark, June 9, 1921.

"(4) The time allotted for consideration of the budget by the Executive Department gives a better opportunity to investigate the real needs of the Departments.

"(5) The executive budget enables the Governor to have more control over the administrative departments.

"(6) The Legislature gets through its Appropriations Committee, a more comprehensive and understandable survey of the requirements.

"(7) The amendment advancing the fiscal year from November 1st to July 1st increases the time within the Governor's term over which his budgetary activities run."

Senator Arthur Whitney, who has been a member of the committee on appropriations since the installation of the executive budget and acted as chairman of the committee for three years, makes the following comments upon New Jersey's executive budget system:²⁸

"The New Jersey budget act went into effect in 1916 and has in five years proved its value in the efficient distribution of the state's funds.

"The Governor may engage such assistance as he desires in the preparation of the budget, but a serious defect in the New Jersey statute is that there is no permanent budget bureau and no budget officer required by law. It would be possible for a Governor to have no records and to dismiss all persons who had been connected with the preparation of the budget, so that a Legislature forced to consider the items of the budget would have no data available for their information. There is no question that there should be a budget officer, who would be at work all the year in collecting and filing data relating to the budget. Exact information is essential to budget making, and without a permanent budget bureau, with a budget officer at the head, such information is impossible.

"The Jersey law should also provide for closer cooperation between the committee on appropriations and those who have been engaged in the preparation of the budget. It should permit the Governor, at his request, to appear before the committee and personally defend the budget recommendations: it should require the filing of records of the proceedings of the Governor's hearings and of the committee on appropriations and should give the committee power to secure all data it may require from the budget officer, and compel his presence, if requested any time.

(28) Letter from Senator Arthur Whitney, December 20, 1921.

In a budget which is of the executive type, every effort should be made to fix responsibility upon the executive. In New Jersey, the committee on appropriations may alter in any respect the recommendations of the budget, and when it reports out the annual appropriation bill, the Legislature may amend that bill in any manner it desires. The result of this is unfortunate. The Governor holds hearings, but items are frequently not brought forward at those hearings because it is felt that he might not include them, or might cut down other items in the same department in order to include them. There is always the thought that they can be brought before the committee on appropriations, or, failing that, pressure can be brought upon the legislature to add them to the appropriation bill.

"Many states have in their law the requirement that the appropriation bill shall be considered before any other items carrying appropriation, which, from one point of view is very wise. An appropriations committee can not intelligently appropriate the state's funds when bills are being constantly passed in the legislature requiring appropriations. It means that the work of the committee must be constantly revised, if any money at all is to be left in the state treasury. There is, however, one difficulty in considering the appropriation bill before other bills carrying appropriations; it means a succession of supplemental appropriation bills, and consequent depletion of the treasury. It is a safer plan to have one appropriation bill than a number of bills, and that is the intent of the budget act. A step towards showing clearly the responsibility of the Governor, as distinguished from that of the Legislature, would be to require the Governor to introduce, along with his budget and budget message (the requirements for which are well defined in the New Jersey statute), a Budget Bill, which should be introduced in the legislature on the opening day of the session and be referred to the committee on appropriations. The items of this bill, as reported by the committee, should constitute part one of the original appropriation bill, changed by omissions, decreased or increased as the committee may have seen fit, but no new items added; all new items should be in part two of the bill. This would keep all appropriations in one bill, yet would show distinctly what new items had been added by the legislature, either in committee or by enacted laws. For New Jersey, this would be a desirable change in the statute.

"A difficulty in regard to fixing responsibility on the Governor is the fact that every three years the responsibility is shifted, because an out-going Governor prepares the budget for the in-

coming Governor. The effect of this is bad, first because the outgoing Governor frequently may take little interest in a budget which he is to leave to his successor, and, secondly, because if the in-coming legislature and Governor are of a different political faith, they have little regard for the budget recommendations of the out-going Governor, and the responsibility is too divided for the people easily to fix it where it belongs."

Kansas

The Kansas budget act resembling that of New Jersey has not been effective in practice. In his message to the 1921 legislature Governor Allen urged consideration of a budget commission composed of the governor, auditor and budget director, to revise departmental estimates not in a most artificial fashion as under the present budget law but with investigatory powers definitely established and defined by statute.²⁹

In explanation of the budget law's failure Governor Allen's secretary observes:³⁰

"Our budget law is not effective for the reason that it does not provide adequate budgetary machinery for making examinations into the needs of the various state institutions and departments. Under it the head of each institution, department or board makes out the budget for his department and submits it to the governor. The governor, under a scientific budgetary system, should then be provided with sufficient working force to go into the merits of these various recommendations for the purpose of getting data for his own recommendations to the legislature.

"In the absence of this machinery, all that the governor can do is to take the word of the head of the department or institution as the best information obtainable as to its needs.

"At the last session of the legislature Governor Allen submitted the recommendations of all the departments to the legislature without change, merely saying to the legislature that they should give sympathetic attention to the various budgets prepared. In practice the Kansas budget law has not caused any different attitude toward appropriations than prevailed before the passage of this law."

(29) Message of Governor H. J. Allen to Kansas Legislature, January 11, 1921, p. 2.

(30) Letter from E. D. George, December 7, 1921.

And the secretary of the Kansas state board of agriculture believes the state budget can not succeed without the aid of a director of finance or similar officer devoted to a continuous study of the needs of state departments and institutions.³¹

On the whole, budgetary procedure has produced no marked advantages in the miscellaneous group of states under an executive budget.

Arizona

In Arizona the former executive budget secretary asserts:³²

"The budget submitted to the Legislature of 1921, while somewhat amateurish, gave the finance committee of the two legislative houses the first real comparative figures which they had ever had, as a basis for appropriations.

"Under our law the legislature was in no manner bound by the recommendations of the Governor and the budget was purely advisory in its function. Unlike the executive budget where the so-called Maryland Plan prevails the recommendations of the Governor could be increased or decreased at will, and the appropriation bill showed on final passage that the legislature had made full use of its privilege. Under such a law as we have in this State I fail to see any benefit derived from our first attempt at making the appropriations based on budget system."

Colorado

According to the budget and efficiency commissioner of Colorado, "The operation of the Colorado Budget Law has not been very successful."³³ And Governor Shoup in his message to the legislature of 1921 said:³⁴

"The experience of the budget department in its first two years strengthens my conviction that the recommendations of the head of that department, when approved by the Governor, should have more force and effect than at present. When changes of administration occur the budget for the ensuing biennial period

(31) Letter from J. C. Mohler, June 10, 1921.

(32) Letter from Chas. W. Fairfield, State Auditor, June 15, 1921.

(33) Letter from C. A. Lemmers, June 15, 1921.

(34) Address of Gov. O. H. Shoup before Joint Session of the 23d General Assembly of Colorado, January 7, 1921, p. 6.

should be prepared by the outgoing Executive. It is not to be expected that a newly-elected Governor will have sufficient information regarding the specific needs of State departments and institutions to formulate a financial plan at the outset of his term."

Iowa

A former leader of the Iowa House of Representatives affirms that the executive budget established in Iowa in 1915 has been almost valueless.³⁵ "It amounts to nothing more than a grouping of the askings of the various departments, and lacks all the essential fundamentals of a real budget system. I think no budget system will be adequate that does not function through a continuing board or administrator."

Governor Kendall of Iowa reviewing the budgets submitted to the legislature concludes:³⁶

"I regret exceedingly to say that the recommendations contained in the budget have not been accepted as the basis for appropriations by the General Assembly. The amounts determined upon by the legislative committees for the support of the various activities of the State have been arrived at largely by surrendering to the demands of the different departments, precisely as was done before the budgetary system was established."

Minnesota

Budget practice in Minnesota is thus characterized by the director of the Bureau of Municipal Research, Minneapolis Civic and Commerce Association:³⁷

"Although the governor is given legal authority and apparent responsibility for the budget, he is given no funds with which to provide himself with a staff that can furnish him with real information. The result is that all the Governors have done has been to transmit to the Legislature, in printed form, the departmental requests."

(35) Letter from J. B. Weaver, Des Moines, July 7, 1921.

(36) Letter from Gov. N. E. Kendall, December 17, 1921.

(37) Letter from F. L. Olson, June 9, 1921.

In his inaugural message, Governor J. A. O. Preus, January 5, 1921, urged the establishment of a permanent budgetary secretary appointed by the governor, subject to ratification by the house and senate.³⁸

New Mexico

The Taxpayers' Association of New Mexico is dissatisfied with the state's executive budget system and fostered a constitutional budget amendment in 1921 which was rejected by popular vote.³⁹ Under this amendment the governor would assume office one month earlier and the legislature would convene somewhat later than in the past, allowing the governor opportunity to study the needs of the state. A budget bill would accompany the executive estimates; no special appropriations could be enacted before passage of the general appropriation bill, except upon the governor's recommendation; and the legislature would again be powerless to increase appropriation items other than those for the Judicial Department.

Ohio

Prior to the establishment of a department of finance, Ohio's budget estimates were submitted to the governor, reviewed and submitted by him to the legislature. In practice the estimates were prepared by a budget commissioner. This procedure has been critically appraised by the Ohio Institute for Public Efficiency, an advocate of an executive budget amendment to the state constitution:⁴⁰

"(1) No complete program of work or financial plan is required to be submitted by the Governor to the legislative body. Estimates of expenditures, with few written explanations are submitted in the name of the Governor. Recommendations for additional income needed are lacking.

(38) Inaugural Message of Gov. J. A. O. Preus to the Legislature of Minnesota, January 5, 1921, p. 18.

(39) Letter from Director of Taxpayers' Association of New Mexico, Santa Fe, August 16, 1921.

(40) "A State Budget System for Ohio," p. 4.

"(2) Adequate financial reports are not available to show the financial condition of the state at different times or the cost of expense of operation, upkeep, or outlay for any specified period.

"(3) Accounts are not kept in such a manner as to distinguish the expense of operation from that of the upkeep of property or of either from the outlay for increasing the assets of the state.

"(4) The estimates of expenditures which are submitted to the legislature are not digested in such a form as to be readily understood by the members of the legislature or by the citizens.

"(5) The sessions of the finance committees of the House and Senate to which the budget is referred are usually behind closed doors. There is little or no chance for public participation or hearing.

"(6) A considerable waste of time is involved, in the separate consideration of the budget by separate committees of the House and Senate. A joint finance committee could work more effectively.

"(7) The present form of the appropriation bill is bulky and unsummarized. No totals appear. It is safe to say that few, if any, members of either house know how much money they are appropriating when they vote upon the appropriation bill."

Administrative Budgets

California

The recent administrative reorganization in California virtually regularizes the hitherto informal budget-making functions of the state board of control. On the preparation of a budget by this board the director of the research and service department of the Security Trust and Savings Bank of Los Angeles comments:⁴¹

"While this budget was informal and in no way legally binding upon the Legislature, in fact it was absolute both in its effect upon the Legislature and upon the officers of the state administrative agencies. This was so on account of the fact that the Governor politically so completely dominated the members of the law-making body and because the executive, under the California Constitution is given the power of item-veto over appropriation bills. Even if individual appropriations not appearing in the so-called budget were passed by the Legislature, they

(41) Letter from J. R. Douglas, August 25, 1921.

could be eliminated by the Governor without endangering in any way the support of the general executive establishment.

"While no actual abuse of this indirect means of the executive in California of controlling the fiscal policy and financial program can be pointed out, the scheme tended to set up an oligarchy in the State Board of Control and to cause considerable friction and exasperation among the heads of state departments of administration. It became the common practice of the Board of Control to require that department heads should pledge themselves in advance to abide by the Board's action upon their estimates and to refrain from seeking independent provision of funds from the Legislature. If such guaranties were not forthcoming, little hope could be expected in the way of appropriations."

In the state election of 1922 the Commonwealth Club of California will initiate and submit to the people a constitutional amendment establishing an executive budget system, permitting the legislature to increase items of the budget bill, but prohibiting legislative passage of special appropriation measures prior to adoption of the budget bill.

Reviewing California's experience with an informal administrative budget board, the director of the California Taxpayers' Association believes the governor should be personally responsible for the budget, entrusting the ministerial work of its preparation to the subordinate agency or staff.⁴²

Connecticut

Comptroller Harvey P. Bissell of Connecticut thinks that supervision of appropriations by the state board of finance has many immeasurable advantages over former haphazard methods.⁴³

West Virginia

Relative to West Virginia's budget board the treasurer of the state board of control remarks:⁴⁴

(42) Letter from W. H. Fisher, Los Angeles, October 28, 1921.

(43) Letter from Assistant Secretary, Connecticut Chamber of Commerce, Hartford, June 24, 1921.

(44) Letter from J. W. Barnes, July 18, 1921.

"This is the second year the budget commission has functioned, and all are agreed that it is a great improvement over the old method of log-rolling that obtained.

"The legislative committees are very careful and all items must pass their minute inspection.

"Under the present system the heads of the various state departments pass on their own budget and in this way, of course, some of the desirable things to be obtained are lost.

"The arrangement of the Federal government providing the special budget commission in which no one is pecuniarily interested in the appropriations meets this objection."

From a member of the West Virginia Senate there comes the following criticism of the state's budget system:⁴⁵

"Under our budget system the Board of Public Works made up of the State Officers compose the budget commission. They make up the estimates and submit a bill to the Legislature and the Legislature cannot increase the estimates but may make reductions. The system is not working satisfactorily and there was a strong sentiment at the last session to repeal it, and if it was not a part of the Constitution it would have been repealed.

"In practice each department is inclined to pad its estimates and then secure its adoption by helping others get their padded estimates. It is my judgment that a successful budget system must be in control of the Governor or of a Board that is not interested in any of the expenditures of public money."

Montana

The latest Montana budget contained no recommendations, because two of the three members of the budget-making authority (the State Board of Examiners) were retiring from office early in 1921.⁴⁶

Tennessee

There has been a very good budget law on the statute books of Tennessee since 1917, but no budget has yet been submitted to the legislature in compliance with its provisions.⁴⁷

(45) Letter from Senator Harvey W. Harmer, Clarksburg, June 18, 1921.

(46) Buck, "State Budget Progress," 571.

(47) Ibid.

Michigan

Under the heading, "Why Michigan's Budget Failed," the Committee to Promote Reorganization of Michigan's State Government reported in 1920 on the work of the budget commission recently superseded:⁴⁸

"Intelligent consideration of budget requests under the present system is practically impossible. Responsibility for framing the budget is divided. The essential information is lacking. There is no one between budget periods who is directly charged with the responsibility for studying the work and problems of the various institutions and state departments to determine the conditions under which they operate, the character and quality of the services they render, and to estimate the cost of doing the work or giving the service for which they are responsible.

"Furthermore, so long as a budget is looked upon as a financial program rather than a program of work and service to be rendered, intelligent control of appropriations is impossible. Every budget request should show costs in terms of services it is proposed to render to the state, rather than costs of supplies, material, equipment, etc.

"Intelligent and effective budget procedure requires that information be made available which enables the appropriating body to determine what services are most vital and essential to the state, and when a request for funds is refused, exactly what services are made impossible."

This committee urges provision for a single budget commissioner, appointed by and directly responsible to the governor, who shall be charged with the duty of securing for the governor information regarding the work being done by the various departments responsible to him. The budget commissioner should be furnished the means for studying conditions and needs of the various state departments and institutions to secure the information essential to intelligent consideration of budget requests made by them.

(48) Summary of Report on the Analysis of Michigan's State Government, January 1921, pp. 11-12, 15-16.

Administrative-Legislative Budgets

Wisconsin

In 1919 Governor Philipp of Wisconsin lauded the state's budget system in an address to the National Conference of State Purchasing Agents of the United States, at Madison. Particular advantages of Wisconsin's budgetary procedure cited were:⁴⁹

"In the first place a uniform system of accounting has been adopted by the state. Departments are required to keep their records under the same classifications as are used in the budget. In this way their records show whether they are expending their appropriations for the purposes authorized by the legislature.

"Not only are departments required to keep records of their expenditures but they are likewise required to furnish monthly reports to the office of the State Board of Public Affairs. These monthly reports consist of classified statements of the expenditures, copies of the pay rolls, detailed statements of traveling expense vouchers and any other bills which may have been incurred. These reports are checked, examined and entered on an appropriation record kept in the office of the State Board of Public Affairs, so that the Board constantly knows for what purposes the funds are being expended and whether the legislative intent is being complied with.

"The State Board of Public Affairs is required by law to conduct the annual audits for all departments. These audits afford another check upon the purposes for which the funds have been expended and enable the board to maintain a close scrutiny upon the fiscal affairs of all departments and activities.

"The adoption of the budget system has made it necessary for all financial affairs of the state to be conducted in a manner which is open and above board. It no longer is possible for a department to get two or three appropriations for the same purpose. The purpose must be legitimate, for all requests are now scrutinized so carefully and publicity given that it is next to impossible to slip any appropriations through which should not be passed.

"The budget system has resulted in the elimination of a large

(49) Budget and Budget Making, Address by Gov. E. L. Philipp of Wisconsin, at National Conference of State Purchasing Agents of the United States, Madison, August 27-28, 1919.

number of personal measures. Members of the Legislature are no longer interested in espousing the cause of this or that person in state service.

"Departments themselves, as a rule, no longer initiate appropriation measures nor concern themselves about the passage of the appropriation measures. In this way the lobbying which department heads and even employes formerly indulged in has been eliminated.

"Under the budget system a department must pay for everything it receives out of its appropriation. The result is that today department heads are taking pains to see where the postage goes, are watching to see what kind of materials are used by their employes, are trying to reduce the number of printed volumes to the number actually required, in fact, are exerting every precaution to conserve their appropriation, for under the law there is a penalty for the exceeding of an appropriation or the creation of any indebtedness in excess of existing appropriations.

"The budget system tends to fix responsibility for the handling of public funds upon certain specific boards and officers. Through this fixing of responsibility greater economy and efficiency has resulted in the affairs of state."

Governor Blaine, in March 1921, sent a special financial message to the Wisconsin Legislature in which he criticised the existing administrative-legislative budget system:⁵⁰

"The deficits according to the budget estimates as corrected and the emergency appropriations made amount in the aggregate to over \$1,400,000. From a review of the emergency appropriations made and the deficits created, . . . grave doubt well may exist in the minds of public men as to the efficiency and desirability of continuing a budget system along the lines provided in this state.

"The tendency of our present system is to exceed appropriations, rather than to keep within them."

The director of the Citizens' Bureau of Milwaukee makes this observation on the Wisconsin budget:⁵¹

"The present year developed a number of weaknesses in the legislative budget system. There was quite a furore over the

(50) Message of Gov. J. J. Blaine to Wisconsin Legislature, March 1, 1921, pp. 10-11.

(51) Letter from H. L. Henderson, September 2, 1921.

adoption of the state-wide wheel tax. The question arose whether the money was necessary and this need introduced the discussion of the budget. Being a legislative budget, the administration did not know and could not present a complete statement as to the needs of the various departments. The responsibility could not be located, and the entire situation thoroughly convinced us that a legislative budget was not as effective as an executive budget."

North Dakota

A former member of the North Dakota legislature sees a decided advantage in the state's present budget system:⁵²

"It is a decided improvement upon the old system. Prior to the budget law, nothing was done toward ascertaining the needs of the various state institutions until the legislative assembly met and then it seemed to be a hit and miss proposition with reference to appropriations.

"The budget board is in a position to go carefully over all requests and to take into consideration the general running expenses of the state, etc., and to make suggestions with reference to the immediate appropriations and the proper tax levy.

"During the session of the legislature, in which I had the honor to sit, there was no report issued more in demand than the report of the budget board."

South Dakota

The secretary of the Sioux Falls, South Dakota, Chamber of Commerce claims the state's budget system is a business-like way of administering public funds and sees no prospect of its abandonment.⁵³

Similarly, the chairman of the South Dakota tax commission finds that the budget board has functioned advantageously in the interests of the state, during the few years of its existence. He reports little or no legislative change in the budget board's recommendations, except in the case of some minor details. And

(52) Letter from Attorney J. F. O'Connor, Grand Forks, June 11, 1921.

(53) Letter from Sec'y. Charles McCaffree, June 23, 1921.

he finds the board committed to an efficiency survey of state administration and the institution of central purchasing for all state departments.⁵⁴

Maine

In Maine the state budget board during the last legislative session accomplished an approximate saving of 10 per cent in expenditures for the last two years and accounted also for a substantial part of the reduction in the state tax rate by over 4 per cent, according to the secretary of the Portland Chamber of Commerce.⁵⁵

Georgia

Georgia has no budget system in the opinion of the state comptroller-general. The executive secretary to the governor of Georgia write:⁵⁶

"The powers of this (budget) commission were so limited by the bill creating it that the state has benefited very little by the work of the commission, other than to furnish the various legislative committees information necessary for them to have before passing appropriations for the departments and institutions."

In fact the Georgia budget commission recognizes its handicaps and has repeatedly recommended a constitutional amendment increasing its powers by prohibiting legislative increase of budget recommendations, except by a two-thirds vote of the legislature's membership.⁵⁷

New York

While New York has just superimposed a board of estimate and control upon its legislative budget system, legislative com-

(54) Statement of Chairman H. L. Eveland, September, 1921.

(55) Letter from E. H. McDonald, June 4, 1921.

(56) Letter from Comptroller-general, December 12, 1921; letter from Atlanta Chamber of Commerce, June 23, 1921.

(57) Report of Georgia Budget and Investigating Commission, 1919, p. 171.

mittee dominance of state finance remains untouched. Therefore, certain drastic criticisms of New York's legislative budget system by the New York State Reconstruction Commission (1919) are here reproduced:⁵⁸

"One of the most serious defects in the present law is that it completely destroys responsibility of the Governor for assembling and reviewing the estimates of expenditures for several departments of the state government.

"Since the passage of the Sage-Maier bill (establishing the legislative budget, 1913) there has been a notorious lack of cooperation between the Governor and the Legislature on financial matters.

"The law has not and can not produce a genuine budget. Such a document must be prepared by officers who know the conditions of the administration for which provisions are to be made. It must present a complete program of work reduced to a business basis, carefully reviewed by a responsible executive officer, and guaranteed to be an economical program; not a collection of padded demands upon the treasury made by officers who are forced to ask more than they hope to get in order to secure approximately enough to meet their bills.

"The law places no limitation upon the introduction and passage by the Legislature of numerous special appropriation bills. It has been the practice of the Legislature to put through a large number of such bills during the closing days of the session. As indicated above the Legislature of 1919 passed 83 special appropriation bills during the last ten days of the session. The total of the budget for 1919-1920 could not be ascertained until a month after the Legislature had adjourned when the Governor had finally acted upon all these bills. Such procedure not only encourages 'log-rolling' and the passage of 'pork barrel' measures, but it makes impossible any comprehensive budget plan.

"The legislative treatment of appropriation measures is perfunctory and uncritical. In fact, the Legislature has surrendered its functions so far as the main appropriation bill is concerned into the hands of the Senate Finance Committee. The opposition party's discussion of appropriation measures is casual and futile."

The Reconstruction Commission and the New York State Association have proposed an executive budget amendment to

(58) New York Reconstruction Commission's Report, 315-316.

the state constitution, embodying the Maryland restriction on legislative increase of items in the budget bill, along the lines recommended by the New York constitutional convention in 1915.

Legislative Budget Systems

Comptroller Sims of Arkansas and the manager of the Little Rock Board of Commerce are authorities for the statement that the state's legislative budget system creates no effective control over appropriations.⁵⁹

A preceding chapter has sketched appropriation methods in Pennsylvania where legislative committees are responsible for the state's financial and work program.

Summary of Operating Results

It is impossible to pass final judgment upon the operation of state budget systems, owing to their relative newness and the scant information available upon budgetary progress in some of the thirty states just considered. However, their experience justifies tentative observations upon budgetary theory and practice, both of which are still in the evolutionary or experimental stage.

The estimates of budgetary results quoted at the beginning of this chapter complement rather than contradict each other. It is true that in a majority of the states the budget system has not materially improved the financial planning and control existing before its establishment. But under most favorable conditions budgetary procedure has shown the benefits outlined by the Massachusetts Commission in 1918. And these are worth striving for by the tax payers of every state in the Union.

To recapitulate the demonstrated advantages of a workable state budget system:

- (1) It creates constructive financial leadership, thus introducing responsibility and order into the "buck passing" and chaos of state finances.

(59) Letter from State Comptroller, September 12, 1921; letter from Secretary George Firmin, June 12, 1921.

(2) It affords the governor and legislature complete and comparative data on state finances, facilitating a careful balancing of state expenditures against each other and available income.

(3) It visualizes and popularizes state finances, enabling the citizen to take intelligent interest in the appropriation and expenditure of his taxes.

(4) It reduces "log-rolling" and enforces consideration of the state's needs as a whole.

(5) It stimulates administrative reorganization and gradual tightening of administrative methods.

(6) It leads to improved accounting practices.

(7) Through (5) and (6) it makes possible greater control over and responsibility for departmental expenditures.

(8) It tends to keep down deficiencies, check expenditures, and make the state live within its income.

From the budget experience of these thirty states it further appears that:

(1) A constitutional budget amendment is desirable to give the budget system greater prestige and stability and to correct certain structural defects in state government that militate against real financial planning and control.

(2) Reorganization of state administration to fix and centralize responsibility, eliminate useless and duplicate functions and introduce approved business methods, is essential to most effective functioning of the budget system.

(3) In practice the executive budget system shows the most immediate and substantial results.

(4) No budget system can fully succeed without a permanent agency for continuous study and collection of budget information, as well as current operation analyses of state administration.

(5) The budget-making authority should submit a bill or bills covering all appropriations and, if necessary, revenue bills to meet the expenditures proposed.

(6) Complete legislative cooperation with the budget-making authority is a prerequisite to real budgetary control. This involves:

(a) Revision of legislative procedure to insure joint consideration of the budget by the finance committees.

(b) Some plan whereby the budget bill or bills can be given a preferred legislative status. Budget appropriations should have precedence over special appropriations, thus keep-

ing the former in the limelight, using them as a measure of supplementary and total expenditures, and insuring early and deliberate action upon the budget authority's recommendations.

(c) Where the governor has full power to reject or reduce items of appropriation bills, no restriction upon the legislature's right to increase the budget recommendations seems necessary.

(7) The incoming governor must have access to the information used by his predecessor in preparing a budget for submission to the legislature; and, if desired, the incoming governor should be permitted to supplement the budget so submitted.

APPENDIX

References to State Budget Laws and Amendments

- Alabama, S. L. 1919, nos. 31 and 130.
Arizona, S. L. 1919, c. 61.
Arkansas, S. L. 1913, c. 44
California, S. L. 1911, c. 349, amended by S. L. 1921, S. B. no. 879.
Colorado, S. L. 1919, c. 12.
Connecticut, S. L. 1915, c. 302, amended by S. L. 1919, c. 290 and c. 291.
Delaware, S. L. 1921, c. 26
Florida, S. L. 1921, H. B. no. 69.
Georgia, S. L. 1918, no. 327, p. 155.
Idaho, S. L. 1919, c. 135, amended by S. L. 1921, S. B. no. 326.
Illinois, S. L. 1917, Civil Administrative Code, p. 2.
Indiana, S. L. 1921, S. B. no. 197.
Iowa, S. L. 1915, code secs. 191a—191b.
Kansas, S. L. 1917, c. 312.
Kentucky, S. L. 1918, c. 12.
Louisiana, S. L. 1916, no. 140.
Maine, S. L. 1919, c. 102.
Maryland, amendment, art. III, sec. 52 of Constitution, 1916.
Massachusetts, amendment, no. 16, Constitution, 1918, supplemented by S. L. 1918, c. 244 and S. L. 1919, c. 52.
Michigan, S. L. 1919, no. 98, amended by S. L. 1921, no. 2.
Minnesota, S. L. 1915, c. 356.
Mississippi, S. L. 1918, c. 225.
Missouri, S. L. 1921, p. 171 (subject to referendum, 1922).
Montana, S. L. 1919, c. 205, amended by S. L. 1921, H. B. no. 194.
Nebraska, S. L. 1921, H. R. no. 492, repealing S. L. 1915, c. 229 and S. L. 1919, c. 190, Title II, art. 2.
Nevada, S. L. 1921, c. 60, repealing S. L. 1919, c. 45.
New Hampshire, S. L. 1919, c. 153.
New Jersey, S. L. 1916, c. 15.
New Mexico, S. L. 1919, c. 174, repealing S. L. 1917, c. 81 and c. 114.

New York, S. L. 1916, c. 130 (Leg. Law, secs. 26—32), amended by S. L. 1921, c. 336.

North Carolina, S. L. 1919, c. 38, amended by Ex. Sess. L. 1920, c. 38, and S. L. 1921, c. 2.

North Dakota, S. L. 1915, c. 61.

Ohio, S. L. 1921, H. B. 249, repealing S. L. 1913, S. B. no. 127.

Oklahoma, S. L. 1919, c. 142.

Oregon, S. L. 1921, c. 22, repealing S. L. 1913, c. 284.

South Carolina, S. L. 1919, no. 130.

South Dakota, S. L. 1917, c. 354, amended by S. L. 1919, c. 319, and by S. L. 1921, c. 374.

Tennessee, S. L. 1917, c. 139.

Texas, S. L. 1919, c. 167.

Utah, S. L. 1917, c. 15, amended by S. L. 1921, c. 127.

Vermont, S. L. 1915, no. 26, amended by S. L. 1917, no. 32 and S. L. 1919, no. 22.

Virginia, S. L. 1918, c. 64, amended by S. L. 1922, H. B. no. 158.

Washington, S. L. 1915, c. 126, amended by S. L. 1921, c. 7, Adm.. Code, sec. 6.

West Virginia, amend. art. VI, sec. 51 of Constitution, 1918.

Wisconsin. S. L. 1913, c. 728, amended by S. L. 1915, c. 606, and S. L. 1917, c. 2 and c. 300.

Wyoming, S. L. 1919, c. 10.

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